



Washington State Legislature

Joint Committee on Pension Policy

2002 Interim Issues

Office of the State Actuary

P.O. Box 40914, Olympia, WA 98504-0914

360-753-9144 - actuary_st@leg.wa.gov

Washington State Legislature

Joint Committee on Pension Policy

Senators

Don Carlson, Chair

Karen Fraser

Harold Hochstatter

Ken Jacobsen

Debbie Regala

Linda Evans Parlette

Harriett Spanel

Shirley Winsley

Representatives

Gary Alexander

Glenn Anderson

Mike Cooper

Steve Conway, Vice Chair

Jerome Delvin

Bill Fromhold

Cheryl Pflug

Geoff Simpson

Office of the State Actuary

Matthew M. Smith, State Actuary

Robert Wm. Baker, Senior Research Analyst

Kelly Burkhart, Administrative Assistant - Publications

Sandra Granger, Staff Coordinator/Office Manager

Darren Painter, Sr. Information Technology Specialist

David Pringle, Research Analyst - Legal

Larry Risch, Deputy Actuary

Christine Masters Ryser, Research Analyst

Evan Sent, Actuarial Assistant

Christi Steele, Information Technology Specialist

Charlene Winner, Administrative Assistant

2002 Interim Issues

Table of Contents

<u>ISSUE</u>	<u>TAB</u>
\$150,000 Death Benefit	1
Age 70 $\frac{1}{2}$	2
Age 66 COLA	3
Definition of Veteran	4
Early Retirement Windows	5
Elected Officials Opt In/Opt Out	6
EMTs into LEOFF	7
Excess Compensation	8
Federal Compliance with Fallen Heros' Survivor Benefit	9
Fish & Wildlife into LEOFF	10
Governance	11
LEOFF 2 Duty-related Disability	12
Plan 1 Retiree COLAs	13
Plan 3 Contribution Rates	14
Post-retirement Employment	15
Public Safety Benefits	16
SERS & PERS Membership/Service Credit	17
Technical Corrections	18
TRS 1 Extended School Year	19

\$150,000 Death Benefit

Background:

In 1996, legislation was passed providing an additional \$150,000 duty-related death benefit to survivors of LEOFF and WSP members. The duty-related death benefit is paid only where death occurs as a result of injuries sustained in the course of employment. In 1998 this benefit was expanded to cover volunteer fire fighters and reserve police officers. Following the passage of this bill, the Governor requested that the JCPP conduct a comprehensive study of duty-related death benefits for public employees. There are about 10 duty-related deaths each biennium in the combined PERS, SERS, and TRS systems.

Committee Activity:

Presentation:

August 14, 2002, Full Committee Meeting

October, 16, 2002, Full Committee Meeting

Proposal Approved:

November 13, 2002, Full Committee Meeting

Recommendation to Legislature:

A \$150,000 death benefit should be provided to survivors of PERS, SERS, and TRS plan members and other public employees who die as a result of injuries sustained in the course of employment.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov



Joint Committee on Pension Policy

\$150,000 Death Benefit

Presented December 10, 2001

Revised September 20, 2002

Prepared by: Robert Wm. Baker

Office of the State Actuary

P.O. Box 40914, Olympia, WA 98504-0914

360-753-9144 – actuary_st@leg.wa.gov

Background:

A duty-related death benefit is paid only where death occurs as a result of injuries sustained in the course of employment. There is also no time limit following the injury in which the death must result.

In 1996 the Legislature passed Engrossed Second Substitute Senate Bill 5322 (Chapter 226, Laws of 1996) which provided an additional \$150,000 duty-related death benefit to survivors of members of LEOFF and WSP.

In 1998 SB 5217 (Chapter 151, laws of 1998) extend the same \$150,000 death benefit coverage to volunteer fire fighters and reserve police officers. Following the passage of this bill, the Governor requested that the JCPP conduct a comprehensive study of duty-related death benefits for public employees. The Governor further requested that the study give consideration to providing an additional duty-death benefit to all public employees.

According to the State Actuary's experience study, there are about 10 duty-related deaths each biennium in the combined PERS, SERS, and TRS systems.

Death Benefits Available:

There are three types of government sponsored death benefits available to public employees outside of the state pension systems.

- Social Security;
- Labor and Industries (L&I);
- Federal Death Benefit.

Labor and Industries Death Benefit

Labor and Industries provides a lump sum for burial expenses together with an ongoing monthly benefit. The monthly benefit is 60% of gross wages plus 2% of gross wages for each dependent. The total monthly payment cannot exceed 120% of the state's average wage -- \$3,723 -- for fiscal year 2002. This benefit is not offset by the Social Security survivor benefit nor is it offset by any other government pension benefit. The benefit does cease upon remarriage.

Social Security Survivor's Benefit

Social Security is paid as a monthly benefit and is available to survivors of both duty and nonduty-related deaths. The benefit amount is based on the earnings of the person who died; the more paid into Social Security, the higher the benefit. The benefit amount is based on a percentage of the deceased's Basic Social Security benefit. The percentage will vary depending on the survivor's age and on the number of surviving dependents. The most typical situations are listed below:

- Widow or widower age 65 or older: 100%
- Widow or widower age 60-64: About 71-94%
- Widow any age with a child under age 16: 75%
- Children: 75%

In general, the Social Security survivor benefit may be reduced or stopped completely if the surviving spouse:

- Returns to work and has earnings in excess of certain limits
- Already receives a Social Security benefit
- Remarries
- No longer has a child under the age of 16

Example
Male age 45 with wages of \$40,000/yr

	<u>Monthly</u>	<u>Annual</u>
Basic Benefit Rate	\$1,311	\$15,732
Spouse under ret age	\$983	\$11,800
Child under 16	\$983	\$11,800
Family Maximum	\$2,341	\$28,100

Public Safety Officers Benefits Program

The Public Safety Officers Benefit Act of 1976 provides a federal duty-death benefit for police officers and fire-fighters who die in the line of duty. This is paid as a lump sum and is available to survivors of policemen and fire fighters only. The size of this benefit does not depend on the income level of the public safety officer prior to his/her death.

1976 - \$50,000

1988 - \$100,000 with a CPI inflator

2002 - \$157,118

Pension Benefits

Aside from the specific death benefits mentioned above, there are also pension-related death benefits. Survivors of LEOFF 1 or WSPRS active members may receive a percent of the members salary plus additional allotments for children to a maximum of 60% of salary in both plans. The survivor of an active LEOFF 2 member may receive the member's earned retirement benefit, if they were eligible, or a refund of 150% of the member's contributions and interest; and if they were not eligible to retire, a refund of the member's contributions plus interest. Active survivor benefits in most other plans are either a refund of the member's contribution and interest if the member was not eligible to retire, or an actuarially reduced benefit if they were eligible.

Budget Language:

Even though this benefit has not passed legislative muster as a stand-alone bill, the language was included in the 2000 supplemental budget and the 2001-2003 budget. In this manner it is not a permanent benefit within the retirement chapter, but rather a temporary benefit that lasts the duration of the budget itself. The payment of a death benefit in this instance is treated as a sundry claim.

Budget Language in ESSB 6153.SL C007 L 01 E2

Sec. 714. DEATH BENEFIT--COMMON SCHOOLS. For the period from July 1, 2001, through June 30, 2003, a one hundred fifty thousand dollar death benefit shall be paid as a sundry claim to the estate of an employee in the common school system of the state who is killed in the course of employment. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the director of the department of general administration by order under RCW 51.52.050.

Sec. 715. DEATH BENEFIT--STATE AGENCIES. For the period from July 1, 2001, through June 30, 2003, a one hundred fifty thousand dollar death benefit shall be paid as a sundry claim to the estate of an employee of any state agency or higher education institution not otherwise provided a death benefit through coverage under their enrolled retirement system. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the director of the department of general administration by order under RCW 51.52.050.

JCPP Recommendation:

A \$150,000 death benefit should be provided to survivors of PERS, SERS, and TRS plan members and survivors of employees of any state agency, the common school system of the state, or institution of higher education who die as a result of injuries sustained in the course of employment.

Fiscal Impact:

See Fiscal Note.

1 AN ACT Relating to providing a death benefit for certain public
2 employees; adding a new section to chapter 41.40 RCW; adding a new
3 section to chapter 41.32 RCW; adding a new section to chapter 41.35
4 RCW; and adding a new section to chapter 41.04 RCW.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW
7 under the subchapter heading "provisions applicable to plan 1, plan 2,
8 and plan 3" to read as follows:

9 (1) A one hundred fifty thousand dollar death benefit shall be paid
10 to the member's estate, or such person or persons, trust or
11 organization as the member has nominated by written designation duly
12 executed and filed with the department. If no such designated person
13 or persons are still living at the time of the member's death, the
14 member's death benefit shall be paid to the member's surviving spouse
15 as if in fact the spouse had been nominated by written designation, or
16 if there is no surviving spouse, then to the member's legal
17 representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of injuries sustained in the course of employment. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW under the subchapter heading "provisions applicable to plan 1, plan 2, and plan 3" to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of injuries sustained in the course of employment. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.35 RCW under the subchapter heading "provisions applicable to plan 2 and plan 3" to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

1 (2) The benefit under this section shall be paid only where death
2 occurs as a result of injuries sustained in the course of employment.
3 The determination of eligibility for the benefit shall be made
4 consistent with Title 51 RCW by the department of labor and industries.
5 The department of labor and industries shall notify the department of
6 retirement systems by order under RCW 51.52.050.

7 NEW SECTION. **Sec. 4.** A new section is added to chapter 41.04 RCW
8 to read as follows:

9 A one hundred fifty thousand dollar death benefit shall be paid as
10 a sundry claim to the estate of an employee of any state agency, the
11 common school system of the state, or institution of higher education
12 who dies as a result of injuries sustained in the course of employment
13 and is not otherwise provided a death benefit through coverage under
14 their enrolled retirement system under this act. The determination of
15 eligibility for the benefit shall be made consistent with Title 51 RCW
16 by the department of labor and industries. The department of labor and
17 industries shall notify the director of the department of general
18 administration by order under RCW 51.52.050.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/16/02	Z-0148.3 \$150,000 Death Ben.

SUMMARY:

This bill impacts the Teachers Retirement System (TRS), the Public Employees Retirement System (PERS) and the School Employees Retirement System (SERS) by providing a \$150,000 death benefit where death occurs as a result of injuries sustained in the course of employment. The bill also provides a \$150,000 death benefit, paid as a sundry claim, for public employees who are not members of PERS, TRS, or SERS whose death occurs as a result of injuries sustained in the course of employment.

Effective Date: 90 days after session.

BACKGROUND DISCUSSION:

This benefit is currently provided in the Law Enforcement Officers and Fire Fighters Retirement System, the Washington State Patrol Retirement System, and by PERS for security personnel of the states' ports or universities.

MEMBERS IMPACTED:

We estimate that all the 66,220 active members of TRS, the 152,936 active members of PERS, and the 48,347 active members of SERS would be affected by this bill by being provided death benefit coverage, but few would die and actually receive this benefit.

We estimate that there will be .5 eligible deaths in TRS, 4.0 eligible deaths in PERS and 1.2 eligible deaths in SERS each year, and that for a member impacted by this bill, the increase in benefits would be \$150,000. The inclusion of public employees who are not PERS, TRS, or SERS members does not increase the estimate of eligible deaths.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of TRS, PERS and SERS differently.

The bill will impact the actuarial funding of TRS, PERS and SERS by increasing the present value of benefits payable under the System as shown below. However, the increase in benefits is insufficient to increase the required actuarial contribution rate of TRS or PERS.

The employer and employee split the cost of this benefit in plan 2, while the cost in plans 1 & 3 is paid by the employer. As members transfer to plan 3 this cost will shift from the employer/employee to the employer. For SERS 2/3 this means the employer cost will increase from slightly less than .01% to somewhat more than .01%. For PERS 2/3 this means the cost will increase depending on what percentage of employees are in plan 3. Because this change depends on the number of transfers and its impact is small, it is not reflected in the budget impact below.

<i>(Dollars in Millions)</i>	System	Current	Increase	Total
Actuarial Present Value of Projected Benefits	TRS 2/3	\$ 4,024	\$ 0.5	\$4,025
The Value of the Total Commitment to all Current Members	TRS 1	10,050	0.1	10,050
	PERS 2/3	12,428	3.5	12,432
	PERS 1	12,244	0.4	12,244
	SERS 2/3	1,610	1.3	1,611
Unfunded Actuarial Accrued Liability	TRS 2/3	N/A	N/A	N/A
The Portion of the Plan 1 Liability that is Amortized until 2024	TRS 1	\$ 400	\$ 0.1	\$ 400
	PERS 2/3	N/A	N/A	N/A
	PERS 1	860	0.4	860
	SERS 2/3	N/A	N/A	N/A
Unfunded Liability (PBO)	TRS 2/3	\$ (1,750)	\$ 0.3	\$ (1,750)
The Value of the Total Commitment to all Current Members Attributable to Past Service	TRS 1	(22)	0.1	(22)
	PERS 2/3	(4,874)	2.0	(4,872)
	PERS 1	301	0.3	301
	SERS 2/3	(724)	0.8	(723)
Required Contribution Rate	TRS	2.22%	.00%	2.22%
	PERS	2.05%	.00%	2.05%
	SERS 2/3	1.74%	.01%	1.75%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Effective September 1, 2003	
Increase in Contribution Rates:	SERS 2/3
Employee (SERS 2 only)	.01%
Employer State	.01%

Costs (in Millions):

2003-2005

State:

General Fund	\$.1
Non-General Fund	<u>0</u>
Total State	\$.1
Local Government	\$.1

2005-2007

State:

General Fund	\$.2
Non-General Fund	<u>0</u>
Total State	\$.2
Local Government	\$.1

2002-2028

General Fund	\$ 3.7
Non-General Fund	<u>0</u>
Total State	\$ 3.7
Local Government	\$ 3.3

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal bill are based on our understanding of the bill as well as generally accepted actuarial practices including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Public Employees Retirement System, Teachers Employees Retirement System and the School Employees Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

Based on a prior study, it is assumed that eligible deaths will occur at the rate of .0026% for SERS and PERS and .0008% for TRS.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2003 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Projected Benefits: Pension benefit amounts which are expected to be paid in the taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces. The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL. The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Age 70½

Background:

To start retirement benefits, an eligible member must separate from service and apply to the Department of Retirement Systems, regardless of age. Federal law for private plans, which does not apply to the Washington State Retirement Systems, requires that distribution begin at age 70½ or certain penalties or consequences may apply. For a period between 1988 and 1991, it was thought that the federal requirements applied to the state, and legislation was enacted allowing distribution at 70½ so long as the federal requirement was in place. The state law was repealed shortly after the federal law was changed.

Committee Activity:

Presentation:

August 14, 2002, Full Committee Meeting

October 16, 2002, Full Committee Meeting

December 4, 2002, Full Committee Meeting

Proposal Approved:

December 4, 2002, Full Committee Meeting

Recommendation to Legislature:

Permit vested members of PERS, SERS, and TRS to begin receipt of their retirement benefits at age 70½ without any requirement that they separate from service. Current state elected and appointed officials are excluded, unless they are re-elected or re-appointed.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Age 70½

Issue Summary

Issue:

In order to begin receiving a retirement allowance, a member must be eligible for benefits under their plan, leave employment, and apply to the department to start their allowance. They thereby leave active membership and become a retiree. The requirement that a member separate from service exists regardless of age. Federal law requires that private plans allow members to terminate active membership and begin their benefits at age 70½ without leaving employment - a rule that does not apply to governmental plans such as the Washington State Retirement Systems.

Background:

In 1986, the Federal Tax Reform Act included a provision amending Internal Revenue Code section 401(a)(9)(C) requiring all pension and retirement benefits to begin no later than age 70½ regardless of whether the individual remained employed. This served as an exception to the general rule that the employee must retire before the payment of retirement benefits can begin. Individuals who did not begin receiving their pension benefits by this time were made subject to a 50 percent tax on the amount that would have been paid had they retired.

To follow the federal requirement, the Legislature changed the Judicial, Judges, LEOFF, TRS, PERS, and WSPRS systems in 1988 to allow members with more than five years of service to apply for their retirement benefit after age 70½. The change adopted by the legislature was distinct from the federal requirement in that it allowed individuals to be active members and collect service credit, and be retired and collect their benefit simultaneously. The expressed intent of the legislature was that if Congress repealed the requirement for distribution at 70½, payments made to members who never left employment and began their benefit under the provision would cease. The rule was codified as RCW 41.04.065.

Federal law was changed to exempt governmental plans, a category of plans that includes the Washington State Retirement Systems, from the requirement that distribution of benefits commences at age 70½. The state retirement systems currently remain exempt from the federal 70½ rule. RCW 41.04.065 was then repealed by the Legislature in 1991, ending the age 70½ provision.

**Vested Active Members Age 70½ or Greater
by System and Plan, 2001 Valuation**

System	Plan 1 Count	Plan 2 Count	Plan 3 Count
SERS	0	86	16
JRS	1	0	0
PERS	133	186	0
TRS	22	6	0

The 2001 Legislature increased the number of hours that retirees in PERS plan 1 and TRS plan 1 could work without facing a reduction in their benefits. All retirees are still required to separate from service for 30 days, however, or be prohibited from both receiving their benefit and returning to work.

Possible Approaches:

Members of PERS, SERS and TRS plans 1, 2, and 3 who have attained age 70½ and meet the vesting requirements for their respective plans could be given the opportunity to apply for retirement benefits to begin without requiring that they separate from service. Upon application for retirement benefits, an individual would cease active membership and would no longer accumulate service credit.

Executive Committee Recommendation:

Members of PERS, SERS, and TRS plans 1, 2, and 3 who have attained age 70½ and meet the vesting requirements for their plan may apply for retirement benefits without requiring that they separate from service. Upon application for retirement benefits, an individual ceases active membership and no longer accumulates service credit.

1 AN ACT Relating to allowing members of the teachers' retirement
2 system, the school employees' retirement system, and the public
3 employees' retirement system to begin receiving benefits without
4 leaving service at age seventy and one-half; adding a new section to
5 chapter 41.32 RCW; adding a new section to chapter 41.35 RCW; and
6 adding a new section to chapter 41.40 RCW.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

8 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW
9 under the subchapter heading "provisions applicable to plan 1, plan 2,
10 and plan 3" to read as follows:

11 Upon attainment of age seventy and one-half, an employed member
12 may, subject to this section, apply for the retirement benefit the
13 member is otherwise eligible to receive and remain employed without
14 reduction in their pension. The retirement benefit begins to accrue on
15 the first day of the calendar month following the month that a member
16 applies for a retirement benefit and has attained age seventy and one-
17 half. The benefit shall be calculated in accordance with the rules of
18 the member's plan, except that the member may continue to be employed.

1 Upon retirement, the retiree is no longer an active member and may not
2 make contributions, nor receive service credit, for future periods of
3 employment while receiving his or her retirement allowance.

4 This section does not apply to any member who is a state elected
5 official on the effective date of this act, unless that member leaves
6 elected office or is reappointed or reelected after the effective date
7 of this act.

8 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.35 RCW
9 under the subchapter heading "provisions applicable to plan 2 and plan
10 3" to read as follows:

11 Upon attainment of age seventy and one-half, an employed member
12 may, subject to this section, apply for the retirement benefit the
13 member is otherwise eligible to receive and remain employed without
14 reduction in their pension. The retirement benefit begins to accrue on
15 the first day of the calendar month following the month that a member
16 applies for a retirement benefit and has attained age seventy and one-
17 half. The benefit is calculated in accordance with the rules of the
18 member's plan, except that the member may continue to be employed.
19 Upon retirement, the retiree is no longer an active member and may not
20 make contributions, nor receive service credit, for future periods of
21 employment while receiving his or her retirement allowance.

22 This section does not apply to any member who is a state elected
23 official on the effective date of this act, unless that member leaves
24 elected office or is reappointed or reelected after the effective date
25 of this act.

26 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW
27 under the subchapter heading "provisions applicable to plan 1, plan 2,
28 and plan 3" to read as follows:

29 Upon attainment of age seventy and one-half, an employed member
30 may, subject to this section, apply for the retirement benefit the
31 member is otherwise eligible to receive and remain employed without
32 reduction in their pension. The retirement benefit begins to accrue on
33 the first day of the calendar month following the month that a member
34 applies for a retirement benefit and has attained age seventy and one-
35 half. The benefit shall be calculated in accordance with the rules of
36 the member's plan, except that the member may continue to be employed.

1 Upon retirement, the retiree is no longer an active member and may not
2 make contributions, nor receive service credit, for future periods of
3 employment while receiving his or her retirement allowance.

4 This section does not apply to any member who is a state elected
5 official on the effective date of this act, unless that member leaves
6 elected office or is reappointed or reelected after the effective date
7 of this act.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/11/02	Z-0258.1 Age 70½

SUMMARY:

This bill impacts all of the plans of the Teachers' Retirement System, the School Employees' Retirement System and the Public Employees' Retirement System by permitting vested members who attain age 70 and one half to apply to the Department of Retirement Systems to begin their benefits without requiring that they separate from service. Upon application for retirement benefits an individual ceases active membership and no longer makes contributions nor receives service credit. Current state elected and appointed officials are exempt from this act until having been re-elected or re-appointed.

Effective Date: 90 days after session.

BACKGROUND DISCUSSION:

Current law requires members of TRS, SERS, and PERS to retire before benefits begin regardless of age. This generally requires a member to first separate from service and then apply to the Department of Retirement Systems for retirement.

MEMBERS IMPACTED:

We estimate that approximately 450 members are age 70½ and eligible to receive benefits in the 2001 Valuation of the State Retirement Systems.

FISCAL IMPACT:

Insufficient impact to affect the contribution rates.

Age 66 COLA

Background:

PERS 1 and TRS 1 retirees are first eligible to receive Uniform COLA increases when they have both: attained age-66; and been retired one year. The determination of eligibility is made on July 1 of each year. As a result, retirees with birthdays after July 1st, do not become eligible to receive the COLA until the following year.

Committee Activity:

Presentation:

November 13, 2002, Full Committee Meeting

Proposal Approved:

November 13, 2002, Full Committee Meeting

Recommendation to Legislature:

Amend Uniform COLA eligibility to include all retirees who have been retired one year and will have attained age 66 by December 31st in the year the benefit is paid.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Age 66 COLA

Issue Summary

Currently, retired members of the Public Employees Retirement System plan 1 and the Teachers Retirement System plan 1 are eligible to receive the Uniform COLA when they have been retired for one year and have attained age 66 by July 1st. As a result, retirees who have been retired one year, but do not reach age 66 until after July 1st, must wait until the following July 1st to begin receiving the Uniform COLA.

The executive committee of the JCPP recommends an adjustment in the age requirement for Uniform COLA eligibility. Retirees who have been retired for one year by July 1st will begin to receive the COLA on that date if they will reach age 66 during the calendar year.

This proposal has no impact on those already receiving the Uniform COLA, or on those whose birth dates are from January 1st through July 1st. Those whose birth dates are from July 2nd through December 31st will begin to receive the Uniform COLA a year earlier.

1 AN ACT Relating to public employees' retirement system, plan 1 and
2 teachers' retirement system, plan 1 age and retirement requirements for
3 receipt of the annual increase amount; amending RCW 41.40.197 and
4 41.32.489; providing an effective date; and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.40.197 and 1995 c 345 s 5 are each amended to read
7 as follows:

8 (1) Beginning July 1, 1995, and annually thereafter, the retirement
9 allowance of a person meeting the requirements of this section shall be
10 increased by the annual increase amount.

11 (2) The following persons shall be eligible for the benefit
12 provided in subsection (1) of this section:

13 (a) A beneficiary who has received a retirement allowance for at
14 least one year by July 1st in the calendar year in which the annual
15 increase is given and has attained at least age sixty-six by ((~~July~~
16 ~~1st~~) December 31st in the calendar year in which the annual increase
17 is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.40.1984.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.40.198; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.40.325.

(4) If otherwise eligible, those receiving an annual adjustment under RCW 41.40.188(1)(c) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(5) Those receiving a benefit under RCW 41.40.220(1), or a survivor of a disabled member under RCW 41.44.170(5) shall be eligible for the benefit provided by this section.

(6) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

Sec. 2. RCW 41.32.489 and 1995 c 345 s 2 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year by July 1st in the calendar year in which the annual increase is given and has attained at least age sixty-six by (~~July 1st~~) December 31st in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.32.4851.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.32.485; or

1 (b) A recipient of a survivor benefit on June 30, 1995, which has
2 been increased by RCW 41.32.575.

3 (4) If otherwise eligible, those receiving an annual adjustment
4 under RCW 41.32.530(1)(d) shall be eligible for the annual increase
5 adjustment in addition to the benefit that would have been received
6 absent this section.

7 (5) Those receiving a temporary disability benefit under RCW
8 41.32.540 shall not be eligible for the benefit provided by this
9 section.

10 (6) The legislature reserves the right to amend or repeal this
11 section in the future and no member or beneficiary has a contractual
12 right to receive this postretirement adjustment not granted prior to
13 that time.

14 NEW SECTION. **Sec. 3.** This act is necessary for the immediate
15 preservation of the public peace, health, or safety, or support of the
16 state government and its existing public institutions, and takes effect
17 July 1, 2003.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/26/02	Z-0197.1 Age 66 COLA

SUMMARY:

This bill impacts the Public Employees' Retirement System (PERS) Plan 1 and Teachers' Retirement System (TRS) Plan 1 by allowing those who have been retired for one year, and will be at least age 66 by December 31st, to receive the annual increase paid on July 1st of that year.

Effective Date: July 1, 2003.

BACKGROUND DISCUSSION:

The current provision requires the member to have been retired one year and to be at least age 66 on July 1st to be eligible for the annual increase paid that year. This means that some members will get their first COLA as early as age 66, while others will not get theirs until age 67 (or one to two years after retirement if later). This bill would change this so that some members would get their COLA as early as age 65½, while others will not get theirs until age 66½ (or one to two years after retirement if later).

MEMBERS IMPACTED:

We estimate that 50% of the members who are under age 65 would be affected by this bill.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	10,438	32,195
Actives	13,784	13,971
Vested Terminated	1,957	1,990

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	11,482	53,538
Actives	23,205	23,981
Vested Terminated	3,151	3,310

We estimate that for a typical member impacted by this bill, the annual increase would be paid one year earlier. The annual increase for July 1, 2003 in the monthly benefit is \$1.14 times years of service. The annual increase is increased by 3% each year and by future "gain-sharing" amounts. The typical recipient of the Uniform COLA has 19 years of service in PERS and 25 years of service in TRS.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Teachers' Retirement System and Public Employees' Retirement System (Plan 1):

<i>(Dollars in Millions)</i>	System:	Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	\$ 12,244	\$ 33	\$ 12,277
The Value of the Total Commitment to all Current Members	TRS 1	10,050	29	10,079
Unfunded Actuarial Accrued Liability	PERS 1	\$ 860	\$ 33	\$ 893
The Portion of the Plan 1 Liability that is Amortized until 2024	TRS 1	400	29	429
Unfunded Liability (PBO)	PERS 1	\$ 301	\$ 30	\$ 331
The Value of the Total Commitment to all Current Members Attributable to Past Service	TRS 1	(22)	27	5
Required Contribution Rate-Employer/State	PERS	2.05%	.02%	2.07%
	SERS	1.74%	.02%	1.76%
	TRS	2.22%	.05%	2.27%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

	<u>PERS/SERS</u>	<u>TRS</u>
Increase in Contribution Rates:		
Effective 9/1/2003		
Employee (Plan 2)	0.00%	0.00%
Employer	0.02%	0.05%
Costs (in Millions):		
2003-2005		
State:		
General Fund	\$ 0.8	\$ 3.1
Non-General Fund	0.9	0.0
Total State	\$ 1.7	\$ 3.1
Local Government	\$ 1.5	\$ 0.6

	<u>PERS/SERS</u>	<u>TRS</u>
2005-2007		
State:		
General Fund	\$ 1.0	\$ 3.4
Non-General Fund	<u>1.1</u>	<u>0.0</u>
Total State	\$ 2.1	\$ 3.4
Local Government	\$ 1.8	\$ 0.7
 2003-2028		
State:		
General Fund	\$ 16.8	\$ 56.1
Non-General Fund	<u>18.5</u>	<u>0.0</u>
Total State	\$ 35.3	\$ 56.1
Local Government	\$ 31.3	\$ 11.5

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal bill are based on our understanding of the bill as well as generally accepted actuarial practices including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Public Employees' Retirement System and Teachers' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2003 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces. The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL. The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Definition of Veteran

Background:

A new definition of veteran was adopted by the 2002 legislature for certain purposes such as civil service exam scoring, license plates, county indigent aid, alms houses, and county burials. Unlike the definitions of veteran used in Public Employees Retirement System Plan 1 (PERS 1) and the Washington State Patrol Retirement System (WSPRS), the 2002 definition includes peacetime veterans, certain members of the national guard and reserves, and those who served in the Philippine Armed Forces or Scouts during World War II. The legislation included study language requiring the Joint Committee on Pension Policy to study the effect of using the new definition in the state retirement systems.

Committee Activity:

Presentation:

September 18, 2002, Full Committee Meeting

Proposal Approved:

October 16, 2002, Full Committee Meeting

Recommendation to Legislature:

The Joint Committee on Pension Policy passed a motion to refer the report titled "Definition of Veteran Study" to the legislature in fulfillment of the mandate of Chapter 292, Laws of 2002, section 11.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Definition of “Veteran” Study

Issue Summary

Legislative Mandate

The higher education coordinating board and the joint committee on pension policy shall each conduct a study as to the eligibility of veterans for benefits provided, respectively, by higher education and the state retirement system if the definition of veteran is modified in the manner provided in section 2 of the act and report their findings to the legislature by December 1, 2002. C 292 L 02 sec. 11.

Issue

A new definition of veteran was adopted by the 2002 legislature for certain purposes such as civil service exam scoring, license plates, county indigent aid, alms houses, and county burials. Unlike the definitions of veteran used in Public Employees Retirement System plan 1 (PERS 1) and the Washington State Patrol Retirement System (WSPRS), the 2002 definition includes peacetime veterans, certain members of the national guard and reserves, and those who served in the Philippine Armed Forces or Scouts during World War II. The legislation included the study language above requiring the Joint Committee on Pension Policy to study the effect of using the new definition in the state retirement systems.

Background

There are two distinct types of military service credit in the Washington State Retirement Systems, and are normally referred to as "interruptive" and "prior" military service credit.

Interruptive service credit is available in most of the plans of the Washington State Retirement Systems, but only for periods of military service that interrupt a member's career in public service. To be considered interruptive service, a member must apply for re-employment with their previous public employer within 90 days of their honorable discharge.

A member claiming interruptive service credit in PERS plan 2, for example, must pay employee contributions for the period of interruptive military service within five years of resumption of public employment, but a member of PERS 1 may claim military service credit if eligible without making employee contributions for those periods.

Prior military service credit is available to qualified members of the Public Employees Retirement System, plan 1 (PERS 1). For PERS 1 members with 25 years of service credit, up to five years of military service performed prior to their Washington State Retirement Systems-covered career may be claimed for service credit. Under somewhat different terms prior military service is also available under the benefits available to members who enter the Washington State Patrol Retirement System (WSPRS) prior to January 1, 2003 and earn 25 years of service credit.

Only some types of military service qualify for prior military service credit. In RCW 41.04.005, applicable to PERS 1 and the pre-LEOFF police and fire pension acts, the definition does not include many peacetime veterans, or those that served in the reserves or National Guard. In RCW 41.06.150(20), applicable to WSPRS, qualified veterans include some with service in the National Guard and those with both peacetime and reserve service in the Armed Forces of the United States.

Interruptive military service credit is available to members of the pre-LEOFF Fireman's Relief and Pension 1947 Act plan (RCW 41.16.220) and the pre-LEOFF Police Relief and Pensions in First Class Cities plan (RCW 41.20.030). Service meeting the RCW 41.04.005 definition (included in Appendix A) is eligible for this interruptive military service. Only members that were not employed after the start of LEOFF 1 in March 1, 1970 remained in the pre-LEOFF police and fire plans.

ESB 5626 introduced a broader definition of veteran for purposes such as civil service exam preferences, free license plates, and other county services. Veterans added by the ESB 5626 section 2 to the PERS 1 veteran definition include members of the regular branches that did not serve during a time of war, that served in the reserves, national guards, or coast guard and who either fulfilled their initial military service obligation or served for 180 days under "presidential select reserve call."

Analysis

According to the Department of Veteran's Affairs there are approximately 670,000 veterans of the branches of the armed forces of the United States in Washington State. Of this total population 179,000, or 27%, are peacetime veterans. In addition to those in the federal branches, there are about 8,000 active and 2,500 retired members of the Washington Army and Air National Guard.

Estimated population of veterans in Washington State	
<i>Source: Washington State Department of Veteran's Affairs, 2002</i>	
Armed Forces of the United States, with wartime service:	491,000
Armed Forces of the United States, without wartime service:	179,000
Washington National Guard (army and air)	10,500
Total:	680,500

The Office of Financial Management population projection for Washington as of April 1, 2002 is 6,041,700, suggesting that under a broad definition that includes all those veterans recognized by the Department of Veteran's Affairs, approximately 11% of Washington residents are veterans.

Estimating the number of additional veterans that might be eligible for PERS 1 prior military service credit is hindered by limited information. The number of members of PERS 1 with particular types of military service is unknown. Any effect on other systems such as WSPRS or the pre-LEOFF police and fire plans is likely to be very small in comparison to PERS 1.

One method that can be used is to compare the total veterans in the state to the number of peacetime veterans plus National Guard members, and then apply the difference to estimate the number of additional veterans that might be eligible for prior military service credit.

The 1996 to 2001 Experience Study conducted by the Office of the State Actuary found that forty-eight percent of males and one percent of females retiring with 25 or more years of service were eligible for military service credit. Males had an average of 37 months, and females an average of 35 months of military service.

Estimated Costs

As the number of members of the state retirement systems with certain types of military service can only be estimated and the study is of a hypothetical change of the veteran definitions, only an estimated cost can be provided.

Currently, there are approximately 24,000 active and 54,000 retired members in PERS 1. If the more inclusive definition of veteran from section 2 of ESB 5626 was used for determining eligibility for the remaining active members of PERS 1, 19 percent more male PERS 1 members would receive 37 months of military service credit. There would be a less than 1 percent change in the number of qualifying veterans amongst female PERS 1 members. This change would increase the employer contribution rate for PERS and SERS by 0.01 percent, generating an estimated cost of \$437,000 to the general fund and \$817,000 for local government for the 2003-2005 biennium.

If the more inclusive definition was also applied for future benefit payments to the retired population of PERS 1, the employer contribution rate for PERS and SERS would increase by 0.07 percent, generating an estimated cost of \$3.1 million to the general fund and \$5.7 million for local governments for the 2003-2005 biennium.

Appendix A

Definition of veteran for the Public Employees' Retirement System, Plan 1:

RCW 41.04.005 "Veteran" defined for certain purposes. (1) As used in RCW 41.04.005, 41.16.220, 41.20.050, 41.40.170, and 28B.15.380 "veteran" includes every person, who at the time he or she seeks the benefits of RCW 41.04.005, 41.16.220, 41.20.050, 41.40.170, or 28B.15.380 has received an honorable discharge or received a discharge for physical reasons with an honorable record and who meets at least one of the following criteria:

(a) The person has served between World War I and World War II or during any period of war, as defined in subsection (2) of this section, as either:

(i) A member in any branch of the armed forces of the United States;

(ii) A member of the women's air forces service pilots;

(iii) A U.S. documented merchant mariner with service aboard an oceangoing vessel operated by the war shipping administration, the office of defense transportation, or their agents, from December 7, 1941, through December 31, 1946; or

(iv) A civil service crewmember with service aboard a U.S. army transport service or U.S. naval transportation service vessel in oceangoing service from December 7, 1941, through December 31, 1946; or

(b) The person has received the armed forces expeditionary medal, or marine corps and navy expeditionary medal, for opposed action on foreign soil, for service:

(i) In any branch of the armed forces of the United States; or

(ii) As a member of the women's air forces service pilots.

(2) A "period of war" includes:

(a) World War I;

(b) World War II;

(c) The Korean conflict;

(d) The Vietnam era[, which] means:

(i) The period beginning on February 28, 1961, and ending on May 7, 1975, in the case of a veteran who served in the Republic of Vietnam during that period;

(ii) The period beginning August 5, 1964, and ending on May 7, 1975;

(e) The Persian Gulf War, which was the period beginning August 2, 1990, and ending on the date prescribed by presidential proclamation or law;

(f) The period beginning on the date of any future declaration of war by the congress and ending on the date prescribed by presidential proclamation or concurrent resolution of the congress; and

(g) The following armed conflicts, if the participant was awarded the respective campaign badge or medal: The crisis in Lebanon; the invasion of Grenada; Panama, Operation Just Cause; Somalia, Operation Restore Hope; Haiti, Operation Uphold Democracy; and Bosnia, Operation Joint Endeavor. [2002 c 292 § 1; 2002 c 27 § 1; 1999 c 65 § 1; 1996 c 300 § 1; 1991 c 240 § 1; 1984 c 36 § 1; 1983 c 230 § 1; 1982 1st ex.s. c 37 § 20; 1969 ex.s. c 269 § 1.]

NOTES:

Reviser's note: This section was amended by 2002 c 27 § 1 and by 2002 c 292 § 1, each without reference to the other. Both amendments are incorporated in the publication of this section under RCW 1.12.025(2). For rule of construction, see RCW 1.12.025(1).

Effective date--1983 c 230: "This act is necessary for the immediate preservation of the public peace, health, and safety, the support of the state government and its existing public institutions, and shall take effect July 1, 1983." [1983 c 230 § 3.]

Effective date--Severability--1982 1st ex.s. c 37: See notes following RCW 28B.15.012.

ENGROSSED SENATE BILL 5626

State of Washington

57th Legislature

2001 Regular Session

By Senators Rasmussen, Oke, Swecker, Winsley, Snyder, Shin, Roach, Patterson, McAuliffe and Benton; by request of Joint Select Committee on Veterans' and Military Affairs

Read first time 01/29/2001. Referred to Committee on State & Local Government.

1 AN ACT Relating to the definition of veteran; amending RCW
2 41.04.005, 46.20.027, 41.04.010, 72.36.035, 73.04.090, 73.08.010,
3 73.08.060, 73.08.070, and 73.24.030; adding a new section to chapter
4 41.04 RCW; and creating a new section.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.04.005 and 1999 c 65 s 1 are each amended to read
7 as follows:

8 (1) As used in RCW 41.04.005, 41.16.220, ~~((and))~~ 41.20.050,
9 41.40.170, and 28B.15.380 "veteran" includes every person, who at the
10 time he or she seeks the benefits of RCW 41.04.005, ~~((41.04.010,))~~
11 41.16.220, 41.20.050, 41.40.170, ~~((73.04.110, or 73.08.080))~~ or
12 28B.15.380 has received an honorable discharge or received a discharge
13 for physical reasons with an honorable record and who meets at least
14 one of the following criteria:

15 (a) The person has served between World War I and World War II or
16 during any period of war, as defined in subsection (2) of this section,
17 as either:

18 (i) A member in any branch of the armed forces of the United
19 States;

(ii) A member of the women's air forces service pilots;
(iii) A U.S. documented merchant mariner with service aboard an oceangoing vessel operated by the war shipping administration, the office of defense transportation, or their agents, from December 7, 1941, ~~((to))~~ through December 31, 1946; or

(iv) A civil service crewmember with service aboard a U.S. army transport service or U.S. naval transportation service vessel in oceangoing service from December 7, 1941, ~~((to))~~ through December 31, 1946; or

(b) The person has received the armed forces expeditionary medal, or marine corps and navy expeditionary medal, for opposed action on foreign soil, for service:

(i) In any branch of the armed forces of the United States; or

(ii) As a member of the women's air forces service pilots.

(2) A "period of war" includes:

(a) World War I;

(b) World War II;

(c) The Korean conflict;

(d) The Vietnam era, which was the period beginning August 5, 1964, and ending on May 7, 1975;

(e) The Persian Gulf War, which was the period beginning August 2, 1990, and ending on the date prescribed by presidential proclamation or law;

(f) The period beginning on the date of any future declaration of war by the congress and ending on the date prescribed by presidential proclamation or concurrent resolution of the congress; and

(g) The following armed conflicts, if the participant was awarded the respective campaign badge or medal: The crisis in Lebanon; the invasion of Grenada; Panama, Operation Just Cause; Somalia, Operation Restore Hope; Haiti, Operation Uphold Democracy; and Bosnia, Operation Joint Endeavor.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.04 RCW to read as follows:

"Veteran" includes every person, who at the time he or she seeks the benefits of RCW 72.36.030, 41.04.010, 73.04.090, 73.04.110, 73.08.010, 73.08.060, 73.08.070, or 73.08.080 has received an honorable discharge or received a discharge for medical reasons with an honorable

1 record, where applicable, and who has served in at least one of the
2 following capacities:

3 (1) As a member in any branch of the armed forces of the United
4 States, including the national guard and armed forces reserves, and has
5 fulfilled his or her initial military service obligation;

6 (2) As a member of the women's air forces service pilots;

7 (3) As a member of the armed forces reserves, national guard, or
8 coast guard, and has been called into federal service by a presidential
9 select reserve call up for at least one hundred eighty cumulative days;

10 (4) As a civil service crewmember with service aboard a U.S. army
11 transport service or U.S. naval transportation service vessel in
12 oceangoing service from December 7, 1941, through December 31, 1946; or

13 (5) As a member of the Philippine armed forces/scouts during the
14 period of armed conflict from December 7, 1941, through August 15,
15 1945.

16 **Sec. 3.** RCW 46.20.027 and 1999 c 199 s 1 are each amended to read
17 as follows:

18 A Washington state motor vehicle driver's license issued to any
19 (~~((person serving in the armed forces of the United States,))~~) service
20 member if valid and in force and effect while such person is serving in
21 the armed forces, shall remain in full force and effect so long as such
22 service continues unless the same is sooner suspended, canceled, or
23 revoked for cause as provided by law and for not to exceed ninety days
24 following the date on which the holder of such driver's license is
25 honorably separated from service in the armed forces of the United
26 States. A Washington state driver's license issued to the spouse or
27 dependent child of such service member likewise remains in full force
28 and effect if the person is residing with the service member.

29 For purposes of this section, "service member" means every person
30 serving in the armed forces whose service as of the date of application
31 for the driver's license meets the definition of veteran pursuant to
32 section 2 of this act or the person will meet the definition of veteran
33 at the time of discharge.

34 **Sec. 4.** RCW 41.04.010 and 2000 c 140 s 1 are each amended to read
35 as follows:

36 In all competitive examinations, unless otherwise provided in this
37 section, to determine the qualifications of applicants for public

1 offices, positions or employment, the state, and all of its political
2 subdivisions and all municipal corporations, shall give a scoring
3 criteria status to all veterans as defined in ((RCW 41.04.005)) section
4 2 of this act, by adding to the passing mark, grade or rating only,
5 based upon a possible rating of one hundred points as perfect a
6 percentage in accordance with the following:

7 (1) Ten percent to a veteran who served during a period of war or
8 in an armed conflict as defined in RCW 41.04.005 and does not receive
9 military retirement. The percentage shall be added to the passing
10 mark, grade, or rating of competitive examinations until the veteran's
11 first appointment. The percentage shall not be utilized in promotional
12 examinations;

13 (2) Five percent to a veteran who did not serve during a period of
14 war or in an armed conflict as defined in ((RCW 41.04.005)) section 2
15 of this act or is receiving military retirement. The percentage shall
16 be added to the passing mark, grade, or rating of competitive
17 examinations until the veteran's first appointment. The percentage
18 shall not be utilized in promotional examinations;

19 (3) Five percent to a veteran who was called to active military
20 service for one or more years from employment with the state or any of
21 its political subdivisions or municipal corporations. The percentage
22 shall be added to the first promotional examination only;

23 (4) All veterans' scoring criteria specified in subsections (1),
24 (2), and (3) of this section must be claimed within fifteen years of
25 the date of release from active military service. This period may be
26 extended for valid and extenuating reasons to include but not be
27 limited to:

28 (a) Documented medical reasons beyond control of the veteran;

29 (b) United States department of veterans' affairs documented
30 disabled veteran; or

31 (c) Any veteran who has his or her employment terminated through no
32 fault or action of his or her own and whose livelihood is adversely
33 affected may seek scoring criteria employment consideration under this
34 section.

35 **Sec. 5.** RCW 72.36.035 and 1993 sp.s. c 3 s 6 are each amended to
36 read as follows:

37 For purposes of this chapter, unless the context clearly indicates
38 otherwise:

1 (1) "Actual bona fide residents of this state" means persons who
2 have a domicile in the state of Washington immediately prior to
3 application for admission to a state veterans' home.

4 (2) "Department" means the Washington state department of veterans
5 affairs.

6 (3) "Domicile" means a person's true, fixed, and permanent home and
7 place of habitation, and shall be the place where the person intends to
8 remain, and to which the person expects to return when the person
9 leaves without intending to establish a new domicile elsewhere.

10 (4) "State veterans' home" means either the Washington soldiers'
11 home and colony in Orting, or the Washington veterans' home in Retsil,
12 or both.

13 (5) "Veteran" has the same meaning established in ((RCW 41.04.005))
14 section 2 of this act.

15 **Sec. 6.** RCW 73.04.090 and 1991 c 240 s 3 are each amended to read
16 as follows:

17 All benefits, advantages or emoluments, not available upon equal
18 terms to all citizens, including but not being limited to preferred
19 rights to public employment, civil service preference, exemption from
20 license fees or other impositions, preference in purchasing state
21 property ((and special pension or retirement rights)), which by any law
22 of this state have been made specially available to war veterans or to
23 persons who have served in the armed forces or defense forces of the
24 United States, shall be available only to persons who have been subject
25 to full and continuous military control and discipline as actual
26 members of the federal armed forces or to persons defined as "veterans"
27 in ((RCW 41.04.005)) section 2 of this act. Service with such forces
28 in a civilian capacity, or in any capacity wherein a person retained
29 the right to terminate his or her service or to refuse full obedience
30 to military superiors, shall not be the basis for eligibility for such
31 benefits. Service in any of the following shall not for purposes of
32 this section be considered as military service: The office of
33 emergency services or any component thereof; the American Red Cross;
34 the United States Coast Guard Auxiliary; United States Coast Guard
35 Reserve Temporary; United States Coast and Geodetic Survey; American
36 Field Service; Civil Air Patrol; Cadet Nurse Corps, and any other
37 similar organization.

1 **Sec. 7.** RCW 73.08.010 and 1983 c 295 s 1 are each amended to read
2 as follows:

3 For the relief of indigent and suffering veterans as defined in
4 ((~~RCW 41.04.005~~)) section 2 of this act and their families or the
5 families of those deceased, who need assistance in any city, town or
6 precinct in this state, the legislative authority of the county in
7 which the city, town or precinct is situated shall provide such sum or
8 sums of money as may be necessary, to be drawn upon by the commander
9 and quartermaster, or commander and adjutant or commander and service
10 officer of any post, camp or chapter of any national organization of
11 veterans now, or which may hereafter be, chartered by an act of
12 congress in the city or town upon recommendation of the relief
13 committee of said post, camp or chapter: PROVIDED, Said veteran or the
14 families of those deceased are and have been residents of the state for
15 at least twelve months, and the orders of said commander and
16 quartermaster, or commander and adjutant or commander and service
17 officer shall be the proper voucher for the expenditure of said sum or
18 sums of money.

19 **Sec. 8.** RCW 73.08.060 and 1983 c 295 s 4 are each amended to read
20 as follows:

21 County legislative authorities are hereby prohibited from sending
22 indigent or disabled veterans as defined in ((~~RCW 41.04.005~~)) section
23 2 of this act or their families or the families of the deceased to any
24 almshouse (or orphan asylum) without the concurrence and consent of the
25 commander and relief committee of the post, camp or chapter of any
26 national organization of veterans now, or which may hereafter be,
27 chartered by an act of congress as provided in RCW 73.08.010 and
28 73.08.030. Indigent veterans shall, whenever practicable, be provided
29 for and relieved at their homes in such city, town or precinct in which
30 they shall have a residence, in the manner provided in RCW 73.08.010
31 and 73.08.030. Indigent or disabled veterans as defined in ((~~RCW~~
32 ~~41.04.005~~)) section 2 of this act, who are not insane and have no
33 families or friends with whom they may be domiciled, may be sent to any
34 soldiers' home.

35 **Sec. 9.** RCW 73.08.070 and 1997 c 286 s 1 are each amended to read
36 as follows:

1 It shall be the duty of the legislative authority in each of the
2 counties in this state to designate some proper authority other than
3 the one designated by law for the care of paupers and the custody of
4 criminals who shall cause to be interred at the expense of the county
5 the body of any honorably discharged veterans as defined in ((RCW
6 41.04.005)) section 2 of this act and the wives, husbands, minor
7 children, widows or widowers of such veterans, who shall hereafter die
8 without leaving means sufficient to defray funeral expenses; and when
9 requested so to do by the commanding officer of any post, camp or
10 chapter of any national organization of veterans now, or which may
11 hereafter be, chartered by an act of congress or the relief committee
12 of any such posts, camps or chapters: PROVIDED, HOWEVER, That such
13 interment shall not cost more than the limit established by the county
14 legislative authority nor less than three hundred dollars. If the
15 deceased has relatives or friends who desire to conduct the burial of
16 such deceased person, then upon request of said commander or relief
17 committee a sum not to exceed the limit established by the county
18 legislative authority nor less than three hundred dollars shall be paid
19 to said relatives or friends by the county treasurer, upon due proof of
20 the death and burial of any person provided for by this section and
21 proof of expenses incurred.

22 **Sec. 10.** RCW 73.24.030 and 1977 c 31 s 4 are each amended to read
23 as follows:

24 The said plot shall be available, to the extent such space is
25 available, without charge or cost for the burial of persons who have
26 served in the army, navy, or marine corps in the United States, in the
27 Spanish-American war, Philippine insurrection, or the Chinese Relief
28 Expedition, or who served in any said branches of said service at any
29 time between April 21, 1898 and July 4, 1902 and any veteran as defined
30 in ((RCW 41.04.005)) section 2 of this act.

31 NEW SECTION. **Sec. 11.** The higher education coordinating board and
32 the joint committee on pension policy shall each conduct a study as to
33 the eligibility of veterans for benefits provided, respectively, by
34 higher education and the state retirement system if the definition of

1 veteran is modified in the manner provided in section 2 of this act and
2 report their findings to the legislature by December 1, 2002.

--- END ---

Early Retirement Windows

Background:

Members of the Public Employees Retirement System Plan 1 (PERS Plan 1) may retire: at age 60, with five years of service; at age 55, with 25 years of service; or at any age with 30 years of service.

Members of the Public Employees Retirement System Plan 2 (PERS Plan 2) may retire with full benefits at age 65 with five years of service, or with actuarially reduced benefits at age 55 with 20 years of service. The actuarial reduction varies by age; it averages about a 40 percent reduction for a PERS Plan 2 member who retires at age 60.

In 1973 when Northern State Hospital was closed, the Legislature enacted provisions to provide relocation assistance, termination pay, and an early retirement option for affected employees. In 1982, 1992, and 1993, PERS Plan 1 members and Teachers Retirement System Plan 1 (TRS Plan 1) members were provided an opportunity to retire five years early without a reduction of benefits. In 1998 the Joint Committee on Pension Policy conducted a review of issues related to early retirement windows. An update on the pertinent tables within that analysis was done in 2002.

Committee Activity:

Presentation:

September 18, 2002, Full Committee Meeting

Recommendation to Legislature:

None.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Early Retirement Analysis

Washington State Retirement Systems Membership by Age and Years of Service

PERS 1 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	449	596	352	148	64	1,609
5 – 9	614	891	689	326	124	2,644
10 – 14	758	1,262	1,005	433	130	3,588
15 – 19	749	1,276	1,061	459	94	3,639
20 – 24	1,093	1,545	1,324	601	103	4,666
25 – 29	1,860	3,476	2,190	934	242	8,702
30 or More	60	716	974	515	178	2,443
Total	5,583	9,762	7,595	3,416	935	27,291

PERS 2/3 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	41,709	4,645	2,452	917	436	50,159
5 – 9	25,362	5,417	3,471	1,685	493	36,428
10 – 14	18,964	5,730	3,893	2,104	585	31,276
15 – 19	8,642	3,622	2,666	1,674	390	16,994
20 – 24	3,904	2,444	1,681	937	213	9,179
25 – 29	3	1	4	6	1	15
30 or More	0	3	3	0	0	6
Total	98,584	21,862	14,170	7,323	2,118	144,057

* Boxed areas indicate eligibility for normal retirement.

TRS 1 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	38	164	117	28	8	335
5 – 9	133	428	402	136	21	1,120
10 – 14	170	620	674	158	21	1,643
15 – 19	215	771	812	181	23	2,002
20 – 24	730	1,313	878	206	27	3,145
25 – 29	648	3,447	1,312	273	47	5,727
30 or More	0	547	1,016	324	73	1,960
Total	1,934	7,290	5,211	1,306	220	15,961

TRS 2/3 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	17,697	1,498	573	126	18	19,912
5 – 9	11,691	2,087	1,022	357	50	15,207
10 – 14	7,486	2,287	1,169	386	48	11,376
15 – 19	3,718	1,246	813	331	27	6,135
20 – 24	1,925	959	561	217	29	3,691
25 – 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	42,517	8,077	4,138	1,417	172	56,321

* Boxed areas indicate eligibility for normal retirement.

LEOFF 1 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	0	3	0	0	0	3
5 – 9	2	1	0	1	0	4
10 – 14	3	4	0	0	0	7
15 – 19	4	3	3	1	0	11
20 – 24	88	66	9	0	0	163
25 – 29	207	462	122	9	0	800
30 or More	0	115	204	35	2	356
Total	304	654	338	46	2	1,344

LEOFF 2 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	3567	52	14	4	0	3,637
5 – 9	3357	94	35	15	1	3,502
10 – 14	2849	176	55	9	2	3,091
15 – 19	1607	221	68	20	2	1,918
20 – 24	1248	414	71	5	1	1,739
25 – 29	0	1	0	0	0	1
30 or More	0	0	0	0	0	0
Total	12,628	958	243	53	6	13,888

* Boxed areas indicate eligibility for normal retirement.

SERS 2/3 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	17,168	2,230	1,123	521	216	21,258
5 – 9	8,594	2,401	1,137	472	221	12,825
10 – 14	4,592	2,607	1,613	631	216	9,659
15 – 19	1,239	1,213	1,142	564	121	4,279
20 – 24	481	438	565	337	71	1,892
25 – 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	32,074	8,889	5,580	2,525	845	49,913

* Boxed areas indicate eligibility for normal retirement.

WSP Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	240	6	0	0	0	246
5 – 9	162	5	1	0	0	168
10 – 14	271	5	3	0	0	279
15 – 19	157	8	1	1	0	167
20 – 24	90	15	2	0	0	107
25 – 29	21	32	6	0	0	59
30 or More	0	11	14	2	0	27
Total	941	82	27	3	0	1,053

* Boxed areas indicate eligibility for normal retirement.

Early Retirement Windows



Joint Committee on Pension Policy
Presented May 21, 1998

Prepared by:

Christine Masters Ryser
Research Analyst

Situation Summary:

The issue of early retirement continues to be a topic of interest for legislators, governmental agencies and individual members. This report updates information contained in the 1996 early retirement report and presents policy issues related to targeted early retirement windows.

Background:

Early Retirement Windows and Retirement Incentives:

Normal retirement is what occurs after a member has fulfilled the requirements for receiving an unreduced benefit from their retirement system. Eligibility for normal retirement in the Washington retirement systems varies among the systems and Plans.

Members of the Public Employees' Retirement System Plan 1 (PERS 1 and the Teachers' Retirement System Plan 1 (TRS 1) can qualify for an unreduced benefit by meeting one of three combinations of age and/or service. Washington State Patrol (WSP) members must meet one of two combinations of age and/or service. Members of the Law Enforcement Officers' Retirement System Plan 1 (LEOFF 1) must earn at least five years of service and reach a specific age. These same requirements apply to members of the Plan 2 and Plan 3 systems.

In addition to normal retirement, the Plan 2 systems provide members with an on-going opportunity to retire early. The benefit provided by this option is actuarially reduced to reflect the additional years the member will receive payments. **Table #1** provides the eligibility requirements for each of the major Washington retirement systems.

TABLE #1
Washington Retirement Systems' Retirement Criteria

<u>System</u>	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>
LEOFF	Age 50/5 YOS	Age 55/5 YOS *Age 50/20 YOS	NA
PERS	Age 60/ 5 YOS Age 55/25 YOS Any Age/30 YOS	Age 65/5 YOS *Age 55/20 YOS	NA
TRS	Age 60/5 YOS Age 55/25 YOS Any Age/30 YOS	Age 65/5 YOS *Age 55/20 YOS	Age 65/5 YOS *Age 55/10 YOS
WSP	Any Age/25 YOS Age 55/5 YOS		

* Benefit reduced from age 65.

For purposes of this report, early retirement is discussed in terms of a temporary opportunity (window) allowing certain members to leave employment before normal retirement and begin receiving an unreduced benefit immediately. Early retirement is **not** considered in the context of:

- ◆ Lowering the normal retirement age; or
- ◆ A permanent option allowing members to retire earlier with a reduced benefit. (As exists in the Plan 2 retirement systems.)

There are two types of early retirement windows (ER windows) "blanket" and "targeted". Blanket programs provide early retirement to a large segment of the membership. Usually blanket windows are offered to all members of a retirement system who meet certain age and service requirements. Targeted windows are programs offered to a much smaller group of members, for instance, the employees of a particular agency or facility.

The primary difference in the two types of windows is the scope of the offering. Both blanket and targeted windows are designed to achieve the same end: the voluntary termination of members close to retirement.

In the past, Washington has provided six programs to stimulate retirement among members. While the goals of these programs have varied, all have targeted members of the Public Employees' Retirement System Plan 1 (PERS 1) and/or Teachers Retirement System Plan 1 (TRS 1).

In addition to ER windows, Washington has also employed incentives to encourage members to leave service. As used in the past, incentives are cash payments or increases in salary offered to members already eligible to retire in exchange for the member's agreement to leave service within a certain time period. In other states, incentives have been combined with early retirement to increase the attractiveness of a program. A common combination is to allow members to retire a few years early and credit them with one additional year of service for every X number of years of service already earned.

History of Incentives and Early Retirement Programs:

Incentives and retirement programs offered in the past have been driven by personnel concerns. The goals of these programs can be divided into three categories:

- ◆ Easing adverse impacts on members employed by an abolished agency.
- ◆ Encouraging members close to, or already eligible for retirement, to do so.
- ◆ Reducing FTE's and compensation costs.

Table #2 is a summary of the six programs. A more complete description is contained in **Appendix B**.

TABLE #2
Incentives and Early Retirement Windows
Offered in Washington State

Year	Program
1973	Northern State Hospital When the state decided to close Eastern Washington Hospital, Chapter 43.130 was enacted to provide affected personnel with three options: <ul style="list-style-type: none"> * Relocate to other state employment; * Receive termination pay; or * Members age 55 with five years of service could retire without actuarial reduction in the benefit amount. Members age 45 with 5 years of service could retire with a benefit actuarially reduced from age 55.
1982	Plan 1 Early Retirement Window Revenue shortfalls prompted the Legislature to allow PERS 1 and TRS 1 members to retire up to five years early without an actuarial reduction in benefits. Active members within five years of normal retirement eligibility were targeted. Legislation did not include any restrictions on retirees returning to work.
1992	Community College/K-12 Retirement Incentives TRS 1 members within two years of retirement eligibility were offered additional teaching hours with increased salary if they agreed to waive their rights to tenure at the end of the two years. The increased work hours and salary served to boost the members average final compensation and retirement benefit. The Department of Retirement Systems has since notified employers that such incentives are not reportable as compensation.
1992/ 1993	Plan 1 Early Retirement Windows Educational reform and government streamlining prompted the Legislature to offer PERS 1 and TRS 1 members the opportunity to retire up to five years early without an actuarial reduction in benefits. Eligibility requirements were the same as for the 1982 window. Legislation included restrictions on retirees returning to work.
1995	Department of Transportation Retirement Incentive Certain PERS 1 DOT employees past retirement eligibility were offered cash incentives to terminate employment. Incentive amounts were based on the member's years of service.

Retirement Benefit Policies:

In 1993 the Joint Committee on Pension Policy (JCPP) adopted a set of retirement benefit policies. As a whole, these policies were designed to develop long-term strategies for pension benefits that would best meet the needs of employees, retirees and employers within available resources. These policies do not focus directly to ER windows, but they do establish a framework for considering early retirement issues.

Three policies inherent in the Plan 2 systems were identified for continuation:

- ◆ All state and local employees should have essentially the same retirement plans;
- ◆ Retiree benefits should have some form and degree of protection from inflation'
- ◆ Costs should be shared equally between employees and employers.

New Plans, or changes to current plans should be based on the following additional policies:

- ◆ Sufficient income after leaving the workforce should be from a combination of Social Security, retirement benefits and employee savings.
- ◆ Employees must take responsibility for insuring they have a sufficient income after retirement.
- ◆ Retirement benefits are intended to provide income after leaving the workforce.
- ◆ Employees who vest and leave should be provided reasonable value toward their ultimate retirement for their length of service.
- ◆ Retirees should have more flexibility in determining the form and timing of their benefit.
- ◆ Plan design should be as neutral as possible in its affect on employees:
 - ◇ It should not inhibit employees from changing careers or employers.
 - ◇ Employees should not be encouraged to stay in jobs they consider highly stressful.
 - ◇ Employees should not be encouraged to seek early retirement.
- ◆ Any new retirement plan shall not exceed the Plan 2 cost.

Benefit Funding:

Retirement benefits are funded by contributions from employees and their employers. In the case of the LEOFF systems, the state also pays a portion of benefit costs. Contribution rates are fixed in statute for Plan 1 and WSP members; and for LEOFF 1 employers. PERS 1 and TRS 1 employers and the state contribute at a rate calculated to properly fund the systems. Since their rates are based on statute and not cost, Plan 1 and WSP members do not pay for increases in benefits. Employers and the state must pay any additional costs.

PERS and TRS Plan 2 members and employers each contribute one half of the total cost of benefits. In LEOFF 2, the state pays 40% of the cost and the remainder is split between members and employers. In this funding approach, members pay one half the cost of benefit increases.

TRS 3 members do not contribute to their defined benefits. Only their employers contribute. Thus, any increases in benefits are paid for by the employer.

TABLE #3
Contribution Rates Charged as of 9/1/97

	PERS		TRS			LEOFF		WSP
	Plan 1	Plan 2	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	
Employee	6.00%	4.65%	6.00%	6.03%	NA	6.00%	8.48%	7.00%
Employer	7.32%	7.32%	11.75%	11.75%	11.75%	6.00%	5.09%	11.05%
State						9.21%	9.21%	

Cost-of-living Adjustments:

When members leave the workforce early, they are expected to spend more years in retirement. The longer a member receives a retirement benefit, the more important cost-of-living adjustments to that benefit become.

Automatic annual cost-of-living adjustments (COLAs) are provided retirees in all of the Washington retirement systems. The Plan 2 and 3 systems all receive the same type of adjustments. The PERS and TRS Plan 1 systems receive adjustments through an annual increase call "the Uniform COLA". LEOFF 1 and WSP retirees each receive increases based on a separate mechanism.

TABLE #4
Washington Retirement Systems
Overview of Cost-of-living Adjustment Designs

<u>Plan</u>	<u>COLA Design</u>	<u>When Received</u>
PERS 1/ TRS 1	Automatic annual increases. Increase is a flat-rate amount per year of service. It is increased by 3% each year.	Member has reached age-66 and been retired for one year.
LEOFF 1	Automatic annual adjustment Increase is equal to advances in the Seattle Consumer Price Index.	Member has been retired one year.
All Plans 2/ TRS 3	Automatic adjustment matches advances in the Seattle Consumer Price Index, up to 3% a year.	Member has been retired one year.
WSP	Automatic annual adjustment of 2% of benefit.	Member has been retired one year.

Policy Issues:

1. **Early Retirement Windows are a Personnel Tool:** Employers promoting early retirement stress its usefulness as a method for reducing personnel. Employed in this manner early retirement becomes a matter of personnel policy, not retirement policy.
2. **Are Early Retirement Windows an Employee Benefit?** Employees have expressed an interest in leaving public service at a younger age with a retirement allowance. A number of factors outside the pension system directly impact members' ability to maintain their standard of living once they leave the workforce.
3. **The Effect of Early Retirement Windows on the Normal Retirement Age Policy:** Current eligibility for normal retirement is age-65. Allowing early retirement undermines this policy.
4. **Compensation Savings vs. Increases in the Retirement System Costs:** Claims of fiscal savings are often made when early retirement is proposed. While some savings may be realized in compensation costs, early retirement increases liabilities to the retirement system.
5. **Plan 2 Considerations:** Until now all early retirement efforts have been aimed at Plan 1 members. In the future, Plan 2 members will be targeted. Differences in the way benefits in the Plan 1 and Plan 2 systems are funded have significant implications for early retirement windows.

Analysis:

1. Early Retirement as a Personnel Tool:

Temporary early retirement windows and incentives are not prompted by retirement issues. They are tools to address personnel problems. Three common uses are:

- ♦ **When a facility is closed or staff size is greatly reduced.** In loyalty to employees close to retirement, an employer may offer an early retirement program.
- ♦ **To alter the mix of high and low seniority employees who are terminated during a lay-off.** When senior employees retire, it may allow the employer to reduce cut-backs among shorter-term employees.

-
- ◆ **To foster innovation.** Shorter-term employees may be more open to new employer initiatives. Encouraging retirement of longer-term employees may prune "dead wood".

None of these uses stem from retirement issues. In fact, they may be counter-productive to retirement policies adopted by the JCPP in 1992. In employing ER windows, the employer must judge the benefits gained from employees leaving the workforce against the pressure it places on retirement benefit goals.

ER programs also have the potential to create personnel problems. Employers have a limited control over who takes advantage of an ER opportunity. The employer can set requirements for eligibility, but it is the individual employee's decision whether to take advantage of the offer. Difficulties arise when a greater or lesser number of employees may decide to retire than anticipated further impacting staffing levels. A second danger of such programs is that critical employees may choose to retire, disrupting the provision of services or the completion of projects. Short time periods for taking advantage of a window further exacerbate this problem.

2. Early Retirement as an Employee Benefit:

There are employers who view ER windows as a periodic supplemental benefit. They see early retirement not only as a means to aid themselves, but also provide older employees with a special opportunity to leave service earlier. While this view may be well intentioned, earlier retirement is not always to the long-term benefit of employees.

Workers who retire early face the challenge of maintaining their standard of living over a longer period of time than retirees who leave at normal retirement. In some cases, this may not be an issue. ER windows can be a boon to employees who:

- ◆ Wish to pursue a second career, while receiving income from their first career.
- ◆ Are affected by health disabilities.
- ◆ Have planned to leave the workforce before eligibility and are financially secure.
- ◆ Have access to affordable health care insurance.

PERS 1 members are especially likely to benefit from ER windows. There are no provisions to allow early retirement with a reduced benefit in the Plan 1 systems. In PERS 1, terminated-vested members (those with at least 5 years of service who leave service without withdrawing their contributions), are not eligible to begin drawing an unreduced retirement benefit until age 65. Benefits can be paid at age 60, but are actuarially reduced from age 65. The effect of these provisions is that members who do not continue working until retirement eligibility must either wait to receive their benefits or accept a reduced amount.

This delay in terminated-vested benefits does not occur in other Washington retirement systems. TRS 1 terminated-vested members, and members of the Plan 2 and Plan 3 tiers, can begin receiving unreduced benefits when they reach eligibility for normal retirement.

Employers may view an ER window as a good solution to a personnel problem, and employees see them as a short cut to the "golden years", but four factors require consideration.

The reduced size of the retirement benefit:

Early retirees receive a smaller retirement allowance than they would have if they worked until normal retirement age. An early retiree permanently forgoes additional service credit, as well as potential future salary increases, in lieu of early receipt of the retirement allowance.

Inflation:

In Plan 1, cost-of-living adjustments (COLAs) do not begin until the retiree has reached age-66. In previous ER windows offered by the state, retirees could be as young as age 50. This means some benefit purchasing power will be lost to inflation before the retiree becomes eligible for an annual increase. The amount of the loss could be a little or a lot depending on the rate of inflation and the retiree's age.

Fixed benefits and loss of purchasing power bring discontent. The bulk of persons who sought COLAs in the late 1980s and early 1990s were those whose benefits had been eroded by inflation.

Eligibility for Social Security:

First eligibility for Social Security now occurs at age 62. This "early retirement" benefit is roughly 80% of the amount a worker would receive at age 65. A public employee who leaves employment early will not be eligible for Social Security for even this reduced benefit for several years. In addition, individuals who do not work up until eligibility are likely to receive a lower benefit.

The age at which the full Social Security benefit is obtained is increasing. **Appendix C** shows how the increase in full benefit eligibility is being implemented. The reduction for retirement at age-62, from Social Security is also rising. The person who retires now at age 62 receives a benefit approximately 20% less than the full retirement benefit. For the person who is age 62 in the year 2022, the benefit will be approximately 30% less than the full retirement benefit.

The cost of health care insurance:

At age-65 retirees become eligible for Medicare. Typically the cost of health care insurance is reduced at this age to reflect coverage under the federal program.

Appendix D reflects data from the Washington State Health Care Authority rate schedule, effective January 1, 1998. It shows the monthly premium rates for the pre-age 65 retiree only; and the retiree and spouse. The cost of these premiums range from \$143 to \$179 a month for the retiree only; and from \$262 to \$354 for the retiree and spouse.

3. The Effect of Early Retirement on Normal Retirement Age Policy:

A fundamental impact of early retirement programs is the pressure it exerts on normal retirement age policy. The Legislature established that full retirement benefits will not be paid until the member attains age-65. This policy was established in the creation of PERS 2 and TRS 2. It was reinforced in the creation of TRS 3 and SERS 3.

Early retirement is a limited benefit. Only members who meet the eligibility criteria benefit from it, others gain nothing. Members not eligible for one window will create pressure for another. Adding to this, is the fact that the state has offered three large-scale early retirement windows since 1982. The frequency of these past programs has built an expectation of future programs.

At some point, the expectation and frequency of future ER windows undermines normal retirement policy. Where that line falls may be difficult to determine, except in retrospect. At that point, it may be difficult to reverse the trend.

4. Fiscal Impacts and Policy:

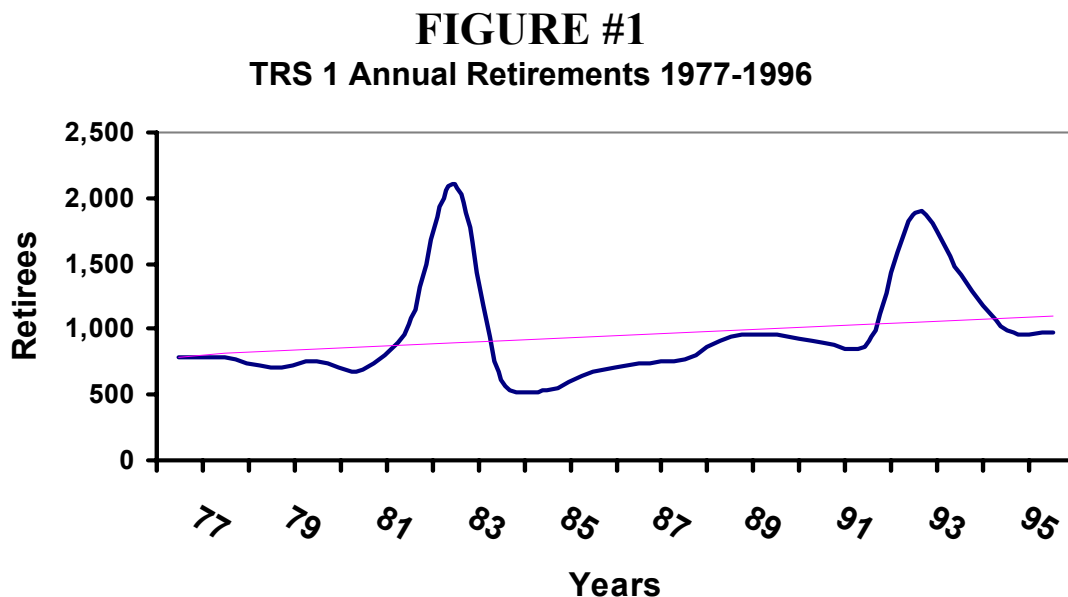
A common justification for early retirement is that it saves the employer money by reducing payroll costs. If salary savings do occur, they seldom compare favorably to the increased costs to the retirement systems. The fiscal impact of ER windows is to temporarily lower payroll costs, while increasing retirement system liabilities. Agencies also experience impacts from unbudgeted cash-outs of unused employee leave.

Compensation Savings:

The "compensation savings" theory of ER windows is relatively straightforward. Windows encourage senior employees, who are earning relatively high salaries, to leave employment. These employees are then replaced by employees earning lower salaries. The difference between the senior employee's salary and the replacement's salary constitutes a savings for the employer.

The replacement of personnel that occurs as a result of ER windows is the same one that occurs when an individual reaches normal retirement. The only difference between early and normal retirement is timing. With an ER window, a large group of employees may leave at one time. Any savings that are realized in a window are simply realized all at once instead of over a period of time. Nothing happens in an ER window that would not have happened within the next few years as workers become eligible for normal retirement.

Figure #1 shows TRS 1 retirements from 1977 through 1995 and a retirement trend line. There are peaks when an ER window is offered and in subsequent years, subnormal retirements occur. The ER window has "borrowed" retirees from the next five years, when those employees would have reached eligibility under normal retirement rules.



Though easy to understand in theory, the cost savings of ER windows are difficult to demonstrate in practice. A number of factors complicate this calculation.

- ◆ **Replacement salaries** In theory, an ER window replaces a high-paid employee, with a low-paid one. In practice, it is usually an employee who is already close in pay to the retiree who moves into that position. This sets off a series of promotions within the agency and eventually an entry-level employee is hired. To calculate the "savings" does the analyst use the salary of the new hire, or the worker who actually replaced the retiree?
- ◆ **Rate of replacement** Real salary savings occur only if the retiree is not replaced. This rarely happens except in situations where a facility closes or agency is abolished. Assumptions about the length of time a retiree's position will go unfilled impact the estimation of compensation savings.

-
- ◆ **Training costs** Replacement employees may need additional training to perform their new responsibilities. Should these costs be included in the savings calculation?

The only salary data available regarding Washington's ER windows comes from the 1992 program. The Office of Financial Management (OFM) had agencies report their savings after the retirement of their employees. OFM estimated the state saved approximately \$1 million in salary savings from PERS 1 early retirees and approximately \$8.6 million from TRS 1.

The Office of the State Actuary (OSA) also conducted a study of the 1992 early retirement window. From the data it received, it was estimated that from \$90,000 to \$400,000 was saved in salaries as a result of PERS 1 retirees and between \$7.2 million and \$16.8 million was saved as a result of TRS 1 retirees. The variability of results from the two studies underscores the difficulty of calculating savings.

Whatever savings may be attributed to an ER window, they are only effective in the current fiscal period. Economies in government are not accumulated from one budget cycle to the next.

Actuarial Impacts:

Except in LEOFF 1, service retirement is the most expensive element of the state's retirement system. Early retirement increases this cost by providing additional years in retirement, while shortening the funding period. **Tables #5 and #6** provide a relative breakdown of benefit costs without an ER window.

TABLE #5
Distribution of Plan 1 Retirement Costs

<u>Benefit</u>	<u>PERS 1</u>	<u>TRS 1</u>	<u>LEOFF 1</u>
Service Retirement	86.1%	90.2%	26.8%
Disability	2.2%	1.3%	67.2%
Death	1.1%	0.6%	3.2%
Withdrawal	10.6%	7.9%	2.9%
Total	100.0%	100.0%	100.0%

TABLE #6
Distribution of Plan 2 Retirement Costs

<u>Benefit</u>	<u>PERS 2</u>	<u>TRS 2</u>	<u>LEOFF 2</u>
Service Retirement	84.4%	89.9%	94.2%
Disability	1.8%	0.7%	0.6%
Death	1.2%	0.5%	0.4%
Withdrawal	12.7%	8.9%	4.8%
Total	100.0%	100.0%	100.0%

Table #7 shows employer costs for the early retirement programs of 1982, 1992 and 1993. The amounts shown are for the first biennial period only. They are represented in 1996 dollars. Increases in contributions rates to fund these programs are applied to all earnable compensation and will be paid by all employers through June 30, 2024.

TABLE #7
Actuarial Costs for Early Retirement
Programs in 1982, 1992 and 1993
(\$ in Millions)

		2-Year Cost		25-Year Cost		Unfunded Accrued Actuarial Liability
		General Fund-State	All Funds	General Fund-State	All Funds	
1982						
PERS 1	1,416	\$ 1.1	\$ 4.1	\$ 28	\$ 107	\$ 36.7
TRS 1	1,023	3.4	4.2	84	104	40.5
1992						
PERS 1	1,198	0.7	2.7	19	73	31.0
TRS 1	818	2.9	3.6	72	89	32.3
1993						
PERS 1	867	0.7	2.7	19	73	22.4
TRS 1	410	1.4	1.7	36	45	16.2

As a matter of comparison, salary data collected by OFM and OSA estimated compensation savings for the 1992 ER program between \$8 and \$17.2 million for PERS 1 and TRS 1 combined. The present value of the unfunded liability incurred by the 1992 ER window was \$63.3 million.

Terminal pay and cash-outs:

When employees retire, they are often eligible to receive cash payments for unused annual leave, sick leave and other benefits. Some of these payments can be quite large. When an ER window is offered, a large group of employees may leave an agency within a short time. The cost of unanticipated cash-outs can be disruptive to an agency and may put its programs into jeopardy in the short run.

5. Plan 2 Considerations:

To date, ER windows have only targeted members of the PERS and TRS Plan 1 systems. These plans have been closed to new members for 22 years. The bulk of Washington's public employees now belong to Plans 2 and 3. If employers are going to continue to use ER windows to manage their workforces, they will have to begin offering them to Plan 2 and 3 members. Key differences in these tiers' benefit structures introduce additional policy issues.

Funding:

In the Plan 1 tiers, members pay a fixed contribution rate. In the Plan 3 tiers, the member does not contribute to the defined benefit portion of the retirement benefits. In both Plans, any increases in benefits, such as an ER window, would be paid for with an increase in employer contributions.

The Plan 2 tiers present a different situation. Benefit costs are split evenly between the employer and the employee. When the cost of benefits increase, both are required to contribute more. If an ER window is offered in Plan 2, both employers and employees will see contributions rise. Non-eligible members would be expected to pay for the program even though they cannot benefit from it.

Retirement Age:

Plan 1 members have three options for meeting retirement eligibility:

- ◆ Age 60 with 5 years of service;
- ◆ Age 55 with 25 years of service; or
- ◆ Any age with 30 years of service.

These age and service options produce retirees at a range of ages roughly from 49 to 60 years. When ER windows are targeted as they have been, by reducing eligibility 5 years, they produce retirees who range in age from 45 to 55.

In contrast to the Plan 1 tiers, eligibility for normal retirement in Plan 2 is age-65. Lowering eligibility 5 years brings that number to age 60. An ER window of this design only affects older members. A program aimed at this population may be viewed as age-discriminatory.

Reduction Factors for the On-going Early Retirement Benefit:

Plan 2 members have a permanent option to retire with a reduced benefit at age 55 with 25 years of service. (See **Table #1**.) An ER window targeted to Plan 2 members will have to determine an equitable policy for members who wish to retire under this eligibility during the ER window. If a window is designed as the Plan 1 windows have been, Plan 2 members could retire at age-60 with 5 years of service:

- ◆ Does this mean that members who are age 50 with 15 years of service qualify for the on-going reduced early retirement benefit during the open window?
- ◆ Do members who meet the age-60 requirement see their benefit reduced from age 60, rather than the normal retirement age of 65?
- ◆ Should the members who are retirement eligible under the on-going early retirement option receive any incentives to retire during a ER window ?

Policy Questions:

There are several policy questions that might be considered with regard to early retirement programs. Two general areas to consider are: the early retirement program itself and responsibility for funding the program.

Early Retirement Program Design:

- ◆ Should early retirement continue to be used as an ad hoc supplemental retirement benefit?
- ◆ Should the Joint Committee adopt a set of guidelines to be used if future early retirement programs are offered?
- ◆ Should early retirement be established as a permanent program to be initiated by the employer?
- ◆ Should early retirement be targeted to identified employee categories?

Early Retirement Program Funding:

- ◆ Should payment continue to be made by all employers or only by those employers affected by early retirement?
- ◆ Should payment of the costs of early retirement be amortized or paid immediately?

Appendix A

Washington State Retirement Systems Membership by Age and Years of Service

PERS 1 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	1,215	499	271	88	38	2,111
5 - 9	1,791	843	420	204	59	3,317
10 - 14	1,869	999	566	262	66	3,762
15 - 19	2,168	1,184	868	412	101	4,733
20 - 24	5,748	3,413	2,333	1,163	277	12,934
25 - 29	1,469	2,433	1,262	709	191	6,064
30 or More	41	389	476	278	105	1,289
Total	14,301	9,760	6,196	3,116	837	34,210

PERS 2 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	51,743	4,577	1,990	994	466	59,770
5 - 9	37,823	6,097	2,939	1,442	550	48,851
10 - 14	16,770	4,355	2,573	1,293	385	25,376
15 - 19	8,240	2,747	1,916	1,184	300	14,387
20 - 24	2	6	4	2	1	15
25 - 29	0	1	0	0	0	1
30 or More	0	0	0	0	0	0
Total	114,578	17,783	9,422	4,915	1,702	148,400

* Boxed areas indicate eligibility for normal retirement.

TRS 1 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	319	188	59	13	2	581
5 - 9	617	498	150	42	14	1,321
10 - 14	878	653	225	50	11	1,817
15 - 19	2,087	783	402	118	20	3,410
20 - 24	4,336	1,811	769	283	45	7,244
25 - 29	1,418	3,219	1,164	368	81	6,250
30 or More	2	700	891	415	85	2,093
Total	9,657	7,852	3,660	1,289	258	22,716

TRS 2 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	12,652	804	257	66	17	13,796
5 - 9	10,626	1,142	380	122	23	12,293
10 - 14	5,228	813	385	115	19	6,560
15 - 19	3,017	580	304	130	29	4,060
20 - 24	0	0	0	0	0	0
25 - 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	31,523	3,339	1,326	433	88	36,709

* Boxed areas indicate eligibility for normal retirement.

LEOFF 1 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	2	0	1	0	0	3
5 - 9	6	0	0	0	0	6
10 - 14	6	4	1	0	0	11
15 - 19	143	16	0	0	0	159
20 - 24	960	270	28	1	0	1,259
25 - 29	258	593	129	13	0	993
30 or More	1	74	59	26	2	162
Total	1,376	957	218	40	2	2,593

LEOFF 2 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	3,306	50	20	3	0	3,379
5 - 9	3,275	62	17	9	1	3,364
10 - 14	1,961	86	34	7	0	2,088
15 - 19	1,842	124	20	7	1	1,994
20 - 24	2	0	0	0	0	2
25 - 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	10,386	322	91	26	2	10,827

* Boxed areas indicate eligibility for normal retirement.

WSP Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	94	0	0	0	0	94
5 - 9	294	2	0	0	0	296
10 - 14	174	1	0	0	0	175
15 - 19	110	3	1	0	0	114
20 - 24	97	16	0	0	0	113
25 - 29	50	48	6	0	0	104
30 or More	0	10	11	0	0	21
Total	819	80	18	0	0	917

* Boxed areas indicate eligibility for normal retirement.

Appendix B

Prior Retirement Incentives and Windows

1973 - Northern State Hospital:

In 1973, the Department of Social and Health Services determined Northern State Hospital was no longer needed as an institution for the mentally ill. As a consequence, the decision was made to permanently close the facility.

Chapter 43.130 RCW was enacted to address this situation and remains in effect today. Under these provisions, qualified personnel of an affected institution are given three options:

- ◆ Relocate to other state employment;
- ◆ Receive payment of termination pay; or
- ◆ If an affected employee has attained age 55 and completed at least 5 years of service, receive a retirement allowance without actuarial reduction. If, an affected employee is age 45 with at least 5 years of service, he or she could retire with an actuarially reduced benefit.

The allowance offered under this Chapter is limited. No allowance can be received in a year following a year in which the retiree earned more than \$6,000. The \$6,000 amount is annually adjusted by any COLA received by PERS retirees, beginning in 1973. (Factually, this is an impossible task, given the nature of COLAs provided from 1973 through the present.)

Community College/K-12 Retirement Incentive Programs:

In June of 1992, the JCPP learned of several retirement incentive programs in operation within the community college districts. A TRS 1 member who was eligible to retire within two years could sign an agreement to retire in two years and waive their rights of tenure at the end of that period. In consideration for this agreement, the member would receive summer session contracts for a class load 50 percent greater than the standard summer load with compensation 72 percent greater than standard compensation.

Certain school districts were also providing retirement incentives. In these instances, the teachers were being given additional teaching days if they agreed to retire within a certain period of time

In both cases, not only were the faculty member and teacher receiving increased compensation, they were also enhancing their average final compensation (AFC), which in turn increased their retirement benefit. DRS later issued a notice to community college and K-12 districts informing them this type of practice was not condoned and such incentives were not reportable as compensation.

Department of Transportation Retirement Incentive Program:

In 1995, the Department of Transportation was experiencing personnel and morale problems in one of its regional offices. Part of the problem was caused by the continued longevity of professional engineering employees. These individuals were not retiring as anticipated and the agency's promotional patterns were being stymied. In addition, budgetary cutbacks were expected.

DOT successfully proposed an incentive program to the Governor and the Legislature. The legislation allowed DOT to offer a \$500 cash bonus for each year of service to certain employees if they agreed to retire. The incentive program was initiated in 1996 for PERS 1 employees of DOT's Southwest Region who were already eligible to retire. Twenty-three employees were eligible for the bonus. Thirteen accepted it. The enabling legislation for this incentive expired in 1997.

1982 Early Retirement Window:

In 1982, the state was experiencing fiscal problems. With declining revenues, the Legislature faced the prospect of reductions in programs and FTEs. To minimize the impact of personnel reductions and realize short-term salary savings, an early retirement program was offered to PERS and TRS Plan 1 members.

In **Table #1**, the qualifications for normal retirement are compared with the qualifications for the early retirement window. (The term *normal retirement* means the receipt of the retirement allowance without reduction.)

TABLE #1
Eligibility for 1982 Early Retirement
PERS 1 and TRS 1

Normal Retirement	Early Retirement
Age 60 with 5 years of service	Age 55 with 5 years of service
Age 55 with 25 years of service	Age 50 with 20 years of service
30 years of service	25 years of service

Normal retirement qualifications were simply reduced by five years. **Table #2** provides some statistics for the 1982 program.

TABLE #2
1982 Early Retirement Statistics

	PERS 1	TRS 1
Number of Retirees	1,938	1,023
Average Age	56.2	53.8
Average Service	18.3	22.6
Years to Normal Retirement	2.3	2.2
Percent of Those Eligible to Utilize Early Retirement	22%	29%

There was an additional element connected with the 1982 early retirement program which may have effected participation rates. The Legislature had just adopted language which prospectively eliminated any cash-out of unused leave, for PERS 1 members. The elimination of this benefit would have prevented PERS 1 members from applying a portion of their cash-out to their average final compensation (AFC) and retirement benefit. The language to eliminate cash-outs was later declared unconstitutional. Nonetheless, a large number of members may have taken advantage of early retirement to ensure they would be able to use their cash-outs in calculating their AFC.

In terms of saving money, the 1982 early retirement program contained one flaw. It did not prohibit early retirees from contracting with their employers to do the same job they were doing prior to retirement. A significant number of retirees did just that and no cost savings were realized.

1992/1993 Early Retirement Window:

The early retirement programs for the years 1992 and 1993 (treated here as a single program), were enacted for two reasons. First, during this period, educational reform was an area of intense legislative deliberation. Some maintained that an early retirement program would provide longer service teachers with the opportunity to retire. By so doing, openings would then be available to younger teachers who might be more amenable to change. Second, it was possible RIFs might be used to trim the size of government. Together these possibilities supported providing an early retirement program.

The time periods for the 1992 and 1993 open windows are shown in **Table #3**.

TABLE #3
Operative Dates for Early Retirement

	Employed in an Eligible Position	Application Submitted By	Retire By
1992	April 2, 1992	June 15, 1992	August 31, 1992
1993	March 1, 1993	July 1, 1993	August 31, 1993

Eligibility for these programs was identical to the criteria applied in 1982. **Table #4** provides the number of early retirees in the 92/93 programs, as well as the utilization rate.

TABLE #4
Number of Early Retirees

	1992			1993		
	Eligible	Retired	Utilization Rate	Eligible	Retired	Utilization Rate
PERS 1	9,381	1,198	12.8%	9,145	867	9.5%
TRS 1	<u>6,611</u>	<u>826</u>	12.5%	<u>6,443</u>	<u>423</u>	6.6%
Total	15,992	2,024	12.7%	15,588	1,290	8.3%

Appendix C

Future Eligibility for Social Security Benefits

Age Eligible for Full Social Security Benefit

If Born In	Will Be Age 62 In	Age For Full Benefit
1937 or Earlier	1999 or Earlier	65 Years
1938	2000	65 Years 2 Months
1939	2001	65 Years 4 Months
1940	2002	65 Years 6 Months
1941	2003	65 Years 8 Months
1942	2004	65 Years 10 Months
1943-1954	2005-2016	66 Years
1955	2017	66 Years 2 Months
1956	2018	66 years 4 Months
1957	2019	66 years 6 months
1958	2020	66 years 8 Months
1959	2021	66 years 10 Months
1960 or Later	2022 or Later	67 Years

Appendix D

1997 Monthly Premium Rates for Non-Medicare Eligible Retirees

Provider	Retiree Only	Retiree & Spouse	Provider	Retiree Only	Retiree & Spouse
Comm Hlth Plan	\$156.43	\$308.57	PacificCare	\$155.24	\$306.19
Group Health	160.12	315.95	QualMed	166.05	327.81
HealthPlus	178.95	353.81	Regence	179.64	354.99
HMO WA	161.29	318.29	Selectcare	157.86	311.43
Kaiser Foundation	146.22	288.15	Skagit Co Medical	143.79	263.29
Kitsap Physcn Svcs	163.23	322.17	Uniform Medical	158.29	312.29
Medical Svcs Corp	158.20	312.11	Virginia Mason	143.29	262.29
NYLCare	146.66	289.03	Whatcom Med Bureau	143.79	283.29
Options Hlth Care	162.64	320.99			

HOUSE BILL 1967

State of Washington

55th Legislature

1997 Regular Session

By Representatives Wolfe, Scott, Mason, Gombosky, Gardner, Hatfield, Dickerson, Keiser and D. Sommers

Read first time 02/17/97. Referred to Committee on Appropriations.

1 AN ACT Relating to early retirement benefits; reenacting and
2 amending RCW 28A.400.212; creating new sections; providing expiration
3 dates; and declaring an emergency.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** (1) Subject to subsection (2) of this
6 section, in addition to members eligible to retire under RCW 41.40.180,
7 any member of the public employees' retirement system plan I who meets
8 the following criteria may retire after providing written notification
9 to the member's employer and submitting the required application to
10 the director on a form provided by the department:

11 (a) The member is employed by an employer in an eligible position
12 on March 1, 1997; and

13 (b) The member has: (i) Attained the age of fifty-five years and
14 completed five service credit years of service; (ii) completed twenty-
15 five service credit years of service; or (iii) attained the age of
16 fifty years and completed twenty service credit years of service.

17 (2) A member who wishes to apply for retirement under subsection
18 (1) of this section must submit the required notification and

1 application form no later than January 1, 1998, setting forth that the
2 member shall be retired no later than June 30, 1998.

3 NEW SECTION. **Sec. 2.** Section 1 of this act is added to chapter
4 41.40 RCW, but because of its temporary nature, shall not be codified.

5 NEW SECTION. **Sec. 3.** (1) Subject to subsection (2) of this
6 section, in addition to members eligible to retire under RCW 41.32.480,
7 any member of the teachers' retirement system plan I who meets the
8 following criteria may retire after providing written notification to
9 the member's employer and submitting the required application to the
10 director on a form provided by the department:

11 (a) The member is employed by an employer on March 1, 1997, and is
12 not a substitute teacher; and

13 (b) The member has: (i) Attained the age of fifty-five years and
14 completed five service credit years of service; (ii) completed twenty-
15 five service credit years of service; or (iii) attained the age of
16 fifty years and completed twenty service credit years of service.

17 (2) A member who wishes to apply for retirement under subsection
18 (1) of this section must submit the required notification and
19 application form no later than July 1, 1997, setting forth that the
20 member shall be retired no later than August 31, 1997.

21 NEW SECTION. **Sec. 4.** Section 3 of this act is added to chapter
22 41.32 RCW, but because of its temporary nature, shall not be codified.

23 NEW SECTION. **Sec. 5.** In order to ensure that the state derives
24 the expected benefits from the early retirement provisions of this act,
25 no state agency may engage through personal service contracts persons
26 who retire from service under the provisions of this act. Exceptions
27 to this section may be granted by written approval from the director of
28 the office of financial management if the director finds that the
29 proposed contract is necessary to protect the public safety, protect
30 against the loss of federal certification or loss of critical federal
31 funds, or carry out functions so essential to the agency that even
32 temporary suspension or delay of services would have a significant
33 negative impact on the public. At the end of each three-month period
34 in which exceptions are approved, the director shall forward a copy of
35 any approvals, together with justification for the exceptions, to the

1 fiscal committees of the legislature. Each forwarded approval shall
2 include the name of the proposed contractor, the agency and division or
3 department requesting the contract, duration and cost of the proposed
4 contract, and specific functions and duties to be carried out under the
5 contract. This section shall expire June 30, 1999.

6 NEW SECTION. **Sec. 6.** Section 5 of this act is added to chapter
7 39.29 RCW, but because of its temporary nature, shall not be codified.

8 NEW SECTION. **Sec. 7.** In order to ensure that the state derives
9 the expected benefits from the early retirement provisions of this act,
10 no board of directors of a school district or educational service
11 district may engage through personal service contracts persons who
12 retire from service under the provisions of this act. Exceptions to
13 this section may be granted by written approval from the superintendent
14 of public instruction if the superintendent finds that the proposed
15 contract is necessary to protect student safety, protect against the
16 loss of school district certification or loss of federal funds, or
17 carry out functions so essential to the district that even temporary
18 suspension or delay of services would have a significant negative
19 impact on students. At the end of each three-month period in which
20 exceptions are approved, the superintendent shall forward a copy of any
21 approvals, together with justification for the exceptions, to the
22 office of financial management and the fiscal committees of the
23 legislature. Each forwarded approval shall include the name of the
24 proposed contractor, the district requesting the contract, duration and
25 cost of the proposed contract, and specific functions and duties to be
26 carried out under the contract. This section shall expire August 31,
27 1998.

28 NEW SECTION. **Sec. 8.** Section 7 of this act is added to chapter
29 28A.400 RCW, but because of its temporary nature, shall not be
30 codified.

31 NEW SECTION. **Sec. 9.** In order to ensure that the state derives
32 the expected benefits from the early retirement provisions of chapter
33 . . . , Laws of 1997 (this act), no state agency may hire persons who
34 retire from service under the provisions of chapter . . . , Laws of 1997
35 (this act), as temporary or project employees, as defined by the

1 Washington personnel resources board for employees covered under
2 chapter 41.06 RCW, and by the employer for persons who are employed by
3 institutions of higher education or community or technical colleges.
4 Exceptions to this section may be granted by written approval from the
5 director of the office of financial management if the director finds
6 that the temporary or project employment of a retiree is necessary to
7 protect the public safety, protect against the loss of federal
8 certification or loss of critical federal funds, or carry out functions
9 so essential to the agency that even temporary suspension or delay of
10 services would have a significant negative impact on the public. At
11 the end of each three-month period in which exceptions are approved,
12 the director shall forward a copy of any approvals, together with
13 justification for the exceptions, to the fiscal committees of the
14 legislature. Each forwarded approval shall include the name of the
15 temporary or project employee, the agency and division or department
16 requesting the employment, duration and cost of the proposed
17 employment, and specific functions and duties to be carried out during
18 the employment. This section shall expire June 30, 1999.

19 NEW SECTION. **Sec. 10.** Section 9 of this act is added to chapter
20 43.01 RCW, but because of its temporary nature, shall not be codified.

21 **Sec. 11.** RCW 28A.400.212 and 1993 c 519 s 14 and 1993 c 86 s 8 are
22 each reenacted and amended to read as follows:

23 An employee of a school district that has established an attendance
24 incentive program under RCW 28A.400.210 who retires under section 1 or
25 3, chapter 234, Laws of 1992, section 1 or 3, chapter 86, Laws of 1993,
26 ((or)) section 4 or 6, chapter 519, Laws of 1993, or section 1 or 3,
27 chapter . . . , Laws of 1997 (section 1 or 3 of this act), shall
28 receive, at the time of his or her separation from school district
29 employment, not less than one-half of the remuneration for accrued
30 leave for illness or injury payable to him or her under the district's
31 incentive program. The school district board of directors may, at its
32 discretion, pay the remainder of such an employee's remuneration for
33 accrued leave for illness or injury after the time of the employee's
34 separation from school district employment, but the employee or the
35 employee's estate is entitled to receive the remainder of the
36 remuneration no later than the date the employee would have been
37 eligible to retire under the provisions of RCW 41.40.180 or 41.32.480

1 had the employee continued to work for the district until eligible to
2 retire, or three years following the date of the employee's separation
3 from school district employment, whichever occurs first. A district
4 exercising its discretion under this section to pay the remainder of
5 the remuneration after the time of the employee's separation from
6 school district employment shall establish a policy and procedure for
7 paying the remaining remuneration that applies to all affected
8 employees equally and without discrimination. Any remuneration paid
9 shall be based on the number of days of leave the employee had accrued
10 and the compensation the employee received at the time he or she
11 retired under section 1 or 3, chapter 234, Laws of 1992, section 1 or
12 3, chapter 86, Laws of 1993, ((or)) section 4 or 6, chapter 519, Laws
13 of 1993, or section 1 or 3, chapter . . . , Laws of 1997 (section 1 or
14 3 of this act).

15 NEW SECTION. **Sec. 12.** This act is necessary for the immediate
16 preservation of the public peace, health, or safety, or support of the
17 state government and its existing public institutions, and takes effect
18 immediately.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY: Office of the State Actuary	CODE: 035	DATE: 2/18/97	BILL NUMBER: HB 1967
--	---------------------	-------------------------	--------------------------------

IMPACT ON: **Public Employees Retirement System Plan I (PERS I)
and Teachers Retirement System Plan I (TRS I)**

BACKGROUND:

Members of PERS I and TRS I are eligible to retire upon attaining:

- (1) 30 years of service;
- (2) age 55 and 25 years of service; or
- (3) age 60 and 5 years of service.

SUMMARY:

Members will be eligible to retire if they attain:

- (1) 25 years of service;
- (2) age 50 and 20 years of service; or
- (3) age 55 and 5 years of service.

PERS I members must be employed as of March 1, 1997, submit an application for retirement by January 1, 1998, and retire as of June 30, 1998.

TRS I members must be employed as of March 1, 1997, submit an application for retirement by July 1, 1997, and retire as of August 31, 1997.

Also, there are limitations on the member returning to work for the employer under a personal services contract.

Finally, employees of school districts may receive additional benefits from attendance incentive programs or accrued leave for sick/injury leave. These payments would not be made from the pension trust funds are not included in the cost estimates that follow.

Number Eligible	PERS I	TRS I
If 100% Utilization Rate	12,100	8,500
Expected Utilization Rate	14%	13%
Expected Number	1,700	1,100

		<u>PERS I</u>	<u>TRS I</u>	<u>TOTAL</u>
Increase in Contribution Rates				
Employer/State		.04%	.07%	
Costs (in millions)				
1997-1999	State:			
	General Fund	\$ 1.2	\$ 2.5	\$ 3.7
	Non-General Fund	2.0	0	2.0
	Total	3.2	2.5	5.8
	Local Government	1.6	.8	2.4
1999-2001	State:			
	General Fund	\$ 1.5	\$ 3.6	\$ 5.0
	Non-General Fund	2.5	0	2.5
	Total	4.0	3.6	7.6
	Local Government	2.0	1.1	3.1
1997-2003	State:			
	General Fund	\$ 4.5	\$10.7	\$15.2
	Non-General Fund	7.6	0.0	7.6
	Total	12.1	10.7	22.8
	Local Government	6.0	3.4	9.4
1997-2022	State:			
	General Fund	\$ 36	\$ 84	\$ 120
	Non-General Fund	62	0	62
	Total	99	84	182
	Local Government	49	27	76
Increase in Unfunded Accrued Liability		\$ 84	\$ 71	\$ 155

Gerald B. Allard, State Actuary

Elected Officials Opt In/Opt Out

Background:

Retirement plans and systems have a variety of rules on membership and benefits for state elected and appointed officials. TRS 1 and PERS 1 provide additional benefits, but require members to contribute an additional 1.5 percent of pay. In TRS 1, a state elected or appointed official may, if eligible, retire and begin receiving monthly benefits while in office. TRS 2/3 members may take a leave of absence without pay to serve in state elected office, or accumulate PERS 2/3 service during their term(s) of office. Upon return to active TRS service, a member that chose a leave of absence may purchase up to two years of service.

During an elected or appointed official's first term in office, they may apply for membership in PERS 2/3 or continue membership in their current plan.

State elected official members of the PERS plans who earn more than \$15,000 per year in their elected positions must meet the retirement eligibility criteria and separate from service to be eligible to receive a retirement benefit.

Committee Activity:

Presentation:

August 14, 2002, Full Committee Meeting

October 16, 2002, Full Committee Meeting

Proposal Approved:

December 4, 2002

Recommendation to Legislature:

Permit members of PERS, SERS, TRS Plans 2 and 3 and LEOFF Plan 2 who are state elected officials to choose membership or retirement at the beginning of each term of office. Upon reaching retirement eligibility, a state elected official will have 90 days at the beginning of each term to choose either membership or retirement. A state elected official who opts to retire shall not earn service credit nor make contributions. They may choose to return to active membership in a subsequent term.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Elected Officials Opt In/Opt Out

State Elected Official Service Retirement Provisions *Issue Summary*

Issue:

State elected officials, such as members of the legislature and statewide office holders such as the Secretary of State or the Lieutenant Governor, have special rules regarding their participation and benefits from the Washington State Retirement Systems. Like the other members of different systems and plans, the terms vary depending on date of entry into membership and system eligibility. The following information is a brief summary of the many detailed rules relating to state elected official membership.

Background:

Who is considered a State Elected Official?

Eligibility for the state elected official benefits vary somewhat by retirement system and plan. Members of the legislature, as well as holders of state-wide elected offices such as the Secretary of State, State Treasurer, and Lieutenant Governor are all examples of state elected officials in all plans.

Benefits for state elected officials vary by the plan they belong to, and also vary from the regular member of those plans. Some plans have rules for local government elected officials and officials appointed directly by the Governor that are distinct from the state elected official rules. The rules for groups other than state elected officials are not included in this discussion. The following table illustrates eligibility and other basic differences between the benefits for regular and state elected official members:

Eligibility and Benefit differences for State Elected Officials by system and plan:

System and Plan	Eligibility for State Elected Official benefits	Benefit differences?
PERS Plan 1	<ul style="list-style-type: none">- elected or appointed to state office- a PERS 1 member when elected- a former PERS 1 member	<ul style="list-style-type: none">- benefit based on 3 percent per year of AFC for eligible service.- member contribution rate is 7.5 %, rather than 6 %.- may retire and retain elected position if earning less than \$15,000 per year, and abandon claims for future service.

System and Plan	Eligibility for State Elected Official benefits	Benefit differences?
PERS Plan 2/3	<ul style="list-style-type: none"> - elected to state office - a PERS 2/3, TRS 2/3, SERS, or LEOFF 2 member when elected - not a member when elected 	<ul style="list-style-type: none"> - may retire and retain elected position if earning less than \$15,000 per year, and abandon claims for future service.
TRS Plan 1	<ul style="list-style-type: none"> - elected or appointed to state office - a TRS 1 member when elected 	<ul style="list-style-type: none"> - may retire and begin benefits without leaving elected office if claim to future service is waived. - member contribution rate is 7.5% rather than 6%.
TRS Plan 2/3	<ul style="list-style-type: none"> - elected or appointed to state office - a TRS 2/3 member when elected 	<ul style="list-style-type: none"> - may enter PERS 2/3 or take a leave of absence from TRS 2/3, purchase TRS service after returning to teaching.
LEOFF plan 1	<ul style="list-style-type: none"> - elected or appointed to state office - elected to a full-time local office - a LEOFF 1 member when elected 	
LEOFF Plan 2	<ul style="list-style-type: none"> - elected or appointed to state office - a LEOFF 2 member when elected 	<ul style="list-style-type: none"> - option of joining PERS 2 rather than continuing LEOFF 2 membership.

With the exception of PERS 2/3, an individual must establish membership in the plan prior to entering their elected or appointed state office. PERS 2/3 is among those with different rules for state elected officials and Governor-appointed officials.

The plans and systems have numerous variations on membership in benefits, for example LEOFF plan 1 is the only one of these plans that treats some full-time local officials under the same rules as state elected officials. TRS plan 1 and PERS plan 1 each provide additional benefits, but also require their members to contribute an additional 1.5 percent of pay.

Rules for entering membership

The state elected official rules provide membership rules for members to opt-in to membership when they begin their elected or appointed service.

- During initial term

During a member's first term in office, they may apply for membership in PERS 2/3 or continue membership in their current plan. Members may generally continue to contribute and earn service credit, or may return to active membership from retirement upon entering office.

TRS 2/3 members are an exception to the general rule. They may take a leave of absence without pay from TRS 2/3 to serve in state elected office and be a member of no plan, or accumulate PERS 2/3 service during their term(s) of office. Upon return to active TRS service, a member that chose a leave of absence may purchase up to two years of TRS unpaid leave of absence service.

A member who is retired when they enter state elected or appointed office may face restrictions on their receipt of their retirement benefit while also being employed. These restrictions vary by system and plan.

In PERS 2/3, a retired member is limited to 867 hours of employment per year without reduction in their retirement benefit. In PERS 1 however, a member who is retired when elected or appointed to office may continue to receive their retirement allowance without reduction. A retired PERS 1 member may also choose to return to active service during a term of office, but any benefits received during the current term of office must be repaid.

As in PERS 2/3, a retired TRS 2/3 state elected official may work up to 867 hours per year and continue to receive an unreduced benefit. In TRS 1, a member may choose to retire or return to active membership during state elected or appointed service. If active TRS 1 member chooses to begin their benefit, all claim to future service while retired is waived. If a retired TRS 1 member returns to active service, their benefit ceases and all benefits paid during that term of office must be repaid.

- During subsequent terms

State elected officials in PERS and TRS 1 may also apply for membership for a new term of office or for following terms. Members of TRS 2/3 or LEOFF may, under some circumstances, be eligible to become an active member of PERS 2/3. Upon entering active membership, service credit will be granted back to the first day of the current term of office upon the member's payment of back employee contributions plus interest. The employer must pay the employer contributions back to the start of that same term.

Prior to retirement, members may apply for retroactive service credit for past terms of state elected or appointed office, however the payment terms differ. The state elected or appointed official must pay the required employee contributions, plus interest, and also the employer contributions plus interest. An employer may choose to pay those contributions for past terms of office in some plans, but is not required to.

When can members retire?

State elected official members of the PERS plans who earn more than \$15,000 per year in their elected positions must meet the retirement criteria for their plan and separate from service to be eligible to receive a retirement benefit.

In TRS 1, a state elected or appointed official may, if eligible, retire from active membership and begin receiving monthly benefits while in office. The TRS 1 member must waive all claim to future service credit that would have been earned while in office. Like PERS 2/3, TRS 2/3 members may choose membership in PERS 2/3 or retire before entering office subject to the TRS 2/3 867 hour post-retirement employment limit, but may not retire while in state elective service.

Eligibility for service credit

Service in state elective positions is considered to be full-time service. For each full year of elected or appointed service, an official is eligible for 12 months of service credit.

Legislative earnable compensation options

Special rules exist for legislators to determine the salary used to determine their retirement allowances. Generally they permit the member to make up for a reduction in earnable compensation that might occur because of leave taken from other public employment for service in the legislature.

In PERS plan 1, a member on a leave of absence from a PERS job to serve in the legislature may use the salary that they would have earned in the other position in determining earnable compensation. Both the employee and employer contributions on the difference between the two earnable compensation amounts must be paid for the imputed compensation to be considered.

In PERS 2/3, a similar option is available, but statute specifically requires the member to pay both any additional member and employer contributions that may be required.

In TRS plan 1, if a member takes a leave of absence to serve in the legislature for five years or more, the member is entitled to use the salary from the position from which leave was taken as earnable compensation upon paying the required employee contributions. In addition, these members with five or more years of legislative service have an amount not to exceed \$7,200 is added to their average final compensation.

In TRS plan 2/3 a member may use the greater of the salary that they would have earned if they had not served in the legislature, or their combined teaching and legislative compensation. The member must pay both the additional member and employer contributions required by the provision's increase to earnable compensation.

Executive Committee Recommendation:

Permit members of all plans who are state elected officials to choose membership or retirement at the beginning of each term of office. Upon reaching the age and service eligibility requirements of their plan, a state elected official will have 90 days at the beginning of each term of office to choose either membership or retirement and commencement of their benefit. A state elected official that opts to retire shall give up earning service credit and making contributions until they choose to return to active membership in a subsequent term.

Unlike the current provisions of most plans, a state elected official member that chooses to retire may begin collecting the benefit they have earned in their plan without requirement that they leave their state elective office. A state elected official who is also a member because they are currently employed in a non-state elective position covered by their retirement plan must still follow the termination and re-employment restrictions related to that other job and retirement plan.

1 AN ACT Relating to allowing a member holding state elective office
2 the option during each term of office of membership or retirement and
3 beginning their retirement allowance in the law enforcement officers'
4 and fire fighters' retirement system, the teachers' retirement system,
5 the school employees' retirement system, and the public employees'
6 retirement system; and amending RCW 41.26.030, 41.32.010, 41.32.263,
7 41.35.030, and 41.40.023.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

9 **Sec. 1.** RCW 41.26.030 and 2002 c 128 s 3 are each amended to read
10 as follows:

11 As used in this chapter, unless a different meaning is plainly
12 required by the context:

13 (1) "Retirement system" means the "Washington law enforcement
14 officers' and fire fighters' retirement system" provided herein.

15 (2)(a) "Employer" for plan 1 members, means the legislative
16 authority of any city, town, county, or district or the elected
17 officials of any municipal corporation that employs any law enforcement
18 officer and/or fire fighter, any authorized association of such

1 municipalities, and, except for the purposes of RCW 41.26.150, any
2 labor guild, association, or organization, which represents the fire
3 fighters or law enforcement officers of at least seven cities of over
4 20,000 population and the membership of each local lodge or division of
5 which is composed of at least sixty percent law enforcement officers or
6 fire fighters as defined in this chapter.

7 (b) "Employer" for plan 2 members, means the following entities to
8 the extent that the entity employs any law enforcement officer and/or
9 fire fighter:

10 (i) The legislative authority of any city, town, county, or
11 district;

12 (ii) The elected officials of any municipal corporation;

13 (iii) The governing body of any other general authority law
14 enforcement agency; or

15 (iv) A four-year institution of higher education having a fully
16 operational fire department as of January 1, 1996.

17 (3) "Law enforcement officer" beginning January 1, 1994, means any
18 person who is commissioned and employed by an employer on a full time,
19 fully compensated basis to enforce the criminal laws of the state of
20 Washington generally, with the following qualifications:

21 (a) No person who is serving in a position that is basically
22 clerical or secretarial in nature, and who is not commissioned shall be
23 considered a law enforcement officer;

24 (b) Only those deputy sheriffs, including those serving under a
25 different title pursuant to county charter, who have successfully
26 completed a civil service examination for deputy sheriff or the
27 equivalent position, where a different title is used, and those persons
28 serving in unclassified positions authorized by RCW 41.14.070 except a
29 private secretary will be considered law enforcement officers;

30 (c) Only such full time commissioned law enforcement personnel as
31 have been appointed to offices, positions, or ranks in the police
32 department which have been specifically created or otherwise expressly
33 provided for and designated by city charter provision or by ordinance
34 enacted by the legislative body of the city shall be considered city
35 police officers;

36 (d) The term "law enforcement officer" also includes the executive
37 secretary of a labor guild, association or organization (which is an
38 employer under RCW 41.26.030(2)) if that individual has five years

1 previous membership in the retirement system established in chapter
2 41.20 RCW. The provisions of this subsection (3)(d) shall not apply to
3 plan 2 members; and

4 (e) The term "law enforcement officer" also includes a person
5 employed on or after January 1, 1993, as a public safety officer or
6 director of public safety, so long as the job duties substantially
7 involve only either police or fire duties, or both, and no other duties
8 in a city or town with a population of less than ten thousand. The
9 provisions of this subsection (3)(e) shall not apply to any public
10 safety officer or director of public safety who is receiving a
11 retirement allowance under this chapter as of May 12, 1993.

12 (4) "Fire fighter" means:

13 (a) Any person who is serving on a full time, fully compensated
14 basis as a member of a fire department of an employer and who is
15 serving in a position which requires passing a civil service
16 examination for fire fighter, and who is actively employed as such;

17 (b) Anyone who is actively employed as a full time fire fighter
18 where the fire department does not have a civil service examination;

19 (c) Supervisory fire fighter personnel;

20 (d) Any full time executive secretary of an association of fire
21 protection districts authorized under RCW 52.12.031. The provisions of
22 this subsection (4)(d) shall not apply to plan 2 members;

23 (e) The executive secretary of a labor guild, association or
24 organization (which is an employer under RCW 41.26.030(2) as now or
25 hereafter amended), if such individual has five years previous
26 membership in a retirement system established in chapter 41.16 or 41.18
27 RCW. The provisions of this subsection (4)(e) shall not apply to plan
28 2 members;

29 (f) Any person who is serving on a full time, fully compensated
30 basis for an employer, as a fire dispatcher, in a department in which,
31 on March 1, 1970, a dispatcher was required to have passed a civil
32 service examination for fire fighter; and

33 (g) Any person who on March 1, 1970, was employed on a full time,
34 fully compensated basis by an employer, and who on May 21, 1971, was
35 making retirement contributions under the provisions of chapter 41.16
36 or 41.18 RCW.

37 (5) "Department" means the department of retirement systems created
38 in chapter 41.50 RCW.

1 (6) "Surviving spouse" means the surviving widow or widower of a
2 member. "Surviving spouse" shall not include the divorced spouse of a
3 member except as provided in RCW 41.26.162.

4 (7) (a) "Child" or "children" means an unmarried person who is under
5 the age of eighteen or mentally or physically handicapped as determined
6 by the department, except a handicapped person in the full time care of
7 a state institution, who is:

8 (i) A natural born child;

9 (ii) A stepchild where that relationship was in existence prior to
10 the date benefits are payable under this chapter;

11 (iii) A posthumous child;

12 (iv) A child legally adopted or made a legal ward of a member prior
13 to the date benefits are payable under this chapter; or

14 (v) An illegitimate child legitimized prior to the date any
15 benefits are payable under this chapter.

16 (b) A person shall also be deemed to be a child up to and including
17 the age of twenty years and eleven months while attending any high
18 school, college, or vocational or other educational institution
19 accredited, licensed, or approved by the state, in which it is located,
20 including the summer vacation months and all other normal and regular
21 vacation periods at the particular educational institution after which
22 the child returns to school.

23 (8) "Member" means any fire fighter, law enforcement officer, or
24 other person as would apply under subsections (3) or (4) of this
25 section whose membership is transferred to the Washington law
26 enforcement officers' and fire fighters' retirement system on or after
27 March 1, 1970, and every law enforcement officer and fire fighter who
28 is employed in that capacity on or after such date.

29 (9) "Retirement fund" means the "Washington law enforcement
30 officers' and fire fighters' retirement system fund" as provided for
31 herein.

32 (10) "Employee" means any law enforcement officer or fire fighter
33 as defined in subsections (3) and (4) of this section.

34 (11) (a) "Beneficiary" for plan 1 members, means any person in
35 receipt of a retirement allowance, disability allowance, death benefit,
36 or any other benefit described herein.

37 (b) "Beneficiary" for plan 2 members, means any person in receipt

1 of a retirement allowance or other benefit provided by this chapter
2 resulting from service rendered to an employer by another person.

3 (12)(a) "Final average salary" for plan 1 members, means (i) for a
4 member holding the same position or rank for a minimum of twelve months
5 preceding the date of retirement, the basic salary attached to such
6 same position or rank at time of retirement; (ii) for any other member,
7 including a civil service member who has not served a minimum of twelve
8 months in the same position or rank preceding the date of retirement,
9 the average of the greatest basic salaries payable to such member
10 during any consecutive twenty-four month period within such member's
11 last ten years of service for which service credit is allowed, computed
12 by dividing the total basic salaries payable to such member during the
13 selected twenty-four month period by twenty-four; (iii) in the case of
14 disability of any member, the basic salary payable to such member at
15 the time of disability retirement; (iv) in the case of a member who
16 hereafter vests pursuant to RCW 41.26.090, the basic salary payable to
17 such member at the time of vesting.

18 (b) "Final average salary" for plan 2 members, means the monthly
19 average of the member's basic salary for the highest consecutive sixty
20 service credit months of service prior to such member's retirement,
21 termination, or death. Periods constituting authorized unpaid leaves
22 of absence may not be used in the calculation of final average salary.

23 (13)(a) "Basic salary" for plan 1 members, means the basic monthly
24 rate of salary or wages, including longevity pay but not including
25 overtime earnings or special salary or wages, upon which pension or
26 retirement benefits will be computed and upon which employer
27 contributions and salary deductions will be based.

28 (b) "Basic salary" for plan 2 members, means salaries or wages
29 earned by a member during a payroll period for personal services,
30 including overtime payments, and shall include wages and salaries
31 deferred under provisions established pursuant to sections 403(b),
32 414(h), and 457 of the United States Internal Revenue Code, but shall
33 exclude lump sum payments for deferred annual sick leave, unused
34 accumulated vacation, unused accumulated annual leave, or any form of
35 severance pay. In any year in which a member serves in the legislature
36 the member shall have the option of having such member's basic salary
37 be the greater of:

1 (i) The basic salary the member would have received had such member
2 not served in the legislature; or

3 (ii) Such member's actual basic salary received for nonlegislative
4 public employment and legislative service combined. Any additional
5 contributions to the retirement system required because basic salary
6 under (b)(i) of this subsection is greater than basic salary under
7 (b)(ii) of this subsection shall be paid by the member for both member
8 and employer contributions.

9 (14)(a) "Service" for plan 1 members, means all periods of
10 employment for an employer as a fire fighter or law enforcement
11 officer, for which compensation is paid, together with periods of
12 suspension not exceeding thirty days in duration. For the purposes of
13 this chapter service shall also include service in the armed forces of
14 the United States as provided in RCW 41.26.190. Credit shall be
15 allowed for all service credit months of service rendered by a member
16 from and after the member's initial commencement of employment as a
17 fire fighter or law enforcement officer, during which the member worked
18 for seventy or more hours, or was on disability leave or disability
19 retirement. Only service credit months of service shall be counted in
20 the computation of any retirement allowance or other benefit provided
21 for in this chapter.

22 (i) For members retiring after May 21, 1971 who were employed under
23 the coverage of a prior pension act before March 1, 1970, "service"
24 shall also include (A) such military service not exceeding five years
25 as was creditable to the member as of March 1, 1970, under the member's
26 particular prior pension act, and (B) such other periods of service as
27 were then creditable to a particular member under the provisions of RCW
28 41.18.165, 41.20.160 or 41.20.170. However, in no event shall credit
29 be allowed for any service rendered prior to March 1, 1970, where the
30 member at the time of rendition of such service was employed in a
31 position covered by a prior pension act, unless such service, at the
32 time credit is claimed therefor, is also creditable under the
33 provisions of such prior act.

34 (ii) A member who is employed by two employers at the same time
35 shall only be credited with service to one such employer for any month
36 during which the member rendered such dual service.

37 (b) "Service" for plan 2 members, means periods of employment by a
38 member for one or more employers for which basic salary is earned for

1 ninety or more hours per calendar month which shall constitute a
2 service credit month. Periods of employment by a member for one or
3 more employers for which basic salary is earned for at least seventy
4 hours but less than ninety hours per calendar month shall constitute
5 one-half service credit month. Periods of employment by a member for
6 one or more employers for which basic salary is earned for less than
7 seventy hours shall constitute a one-quarter service credit month.

8 Members of the retirement system who are elected or appointed to a
9 state elective position may elect during a ninety-day period at the
10 beginning of each term of office to continue (~~((to be members of this~~
11 ~~retirement system))~~, resume, or to end membership in the retirement
12 system and if otherwise eligible begin their retirement allowance. A
13 state elected official who chooses to end membership at the beginning
14 of a term of office and begin their retirement allowance shall neither
15 make contributions nor earn service credit for the duration of that
16 term.

17 Service credit years of service shall be determined by dividing the
18 total number of service credit months of service by twelve. Any
19 fraction of a service credit year of service as so determined shall be
20 taken into account in the computation of such retirement allowance or
21 benefits.

22 If a member receives basic salary from two or more employers during
23 any calendar month, the individual shall receive one service credit
24 month's service credit during any calendar month in which multiple
25 service for ninety or more hours is rendered; or one-half service
26 credit month's service credit during any calendar month in which
27 multiple service for at least seventy hours but less than ninety hours
28 is rendered; or one-quarter service credit month during any calendar
29 month in which multiple service for less than seventy hours is
30 rendered.

31 (15) "Accumulated contributions" means the employee's contributions
32 made by a member, including any amount paid under RCW 41.50.165(2),
33 plus accrued interest credited thereon.

34 (16) "Actuarial reserve" means a method of financing a pension or
35 retirement plan wherein reserves are accumulated as the liabilities for
36 benefit payments are incurred in order that sufficient funds will be
37 available on the date of retirement of each member to pay the member's
38 future benefits during the period of retirement.

1 (17) "Actuarial valuation" means a mathematical determination of
2 the financial condition of a retirement plan. It includes the
3 computation of the present monetary value of benefits payable to
4 present members, and the present monetary value of future employer and
5 employee contributions, giving effect to mortality among active and
6 retired members and also to the rates of disability, retirement,
7 withdrawal from service, salary and interest earned on investments.

8 (18) "Disability board" for plan 1 members means either the county
9 disability board or the city disability board established in RCW
10 41.26.110.

11 (19) "Disability leave" means the period of six months or any
12 portion thereof during which a member is on leave at an allowance equal
13 to the member's full salary prior to the commencement of disability
14 retirement. The definition contained in this subsection shall apply
15 only to plan 1 members.

16 (20) "Disability retirement" for plan 1 members, means the period
17 following termination of a member's disability leave, during which the
18 member is in receipt of a disability retirement allowance.

19 (21) "Position" means the employment held at any particular time,
20 which may or may not be the same as civil service rank.

21 (22) "Medical services" for plan 1 members, shall include the
22 following as minimum services to be provided. Reasonable charges for
23 these services shall be paid in accordance with RCW 41.26.150.

24 (a) Hospital expenses: These are the charges made by a hospital,
25 in its own behalf, for

26 (i) Board and room not to exceed semiprivate room rate unless
27 private room is required by the attending physician due to the
28 condition of the patient.

29 (ii) Necessary hospital services, other than board and room,
30 furnished by the hospital.

31 (b) Other medical expenses: The following charges are considered
32 "other medical expenses", provided that they have not been considered
33 as "hospital expenses".

34 (i) The fees of the following:

35 (A) A physician or surgeon licensed under the provisions of chapter
36 18.71 RCW;

37 (B) An osteopathic physician and surgeon licensed under the
38 provisions of chapter 18.57 RCW;

(C) A chiropractor licensed under the provisions of chapter 18.25 RCW.

(ii) The charges of a registered graduate nurse other than a nurse who ordinarily resides in the member's home, or is a member of the family of either the member or the member's spouse.

(iii) The charges for the following medical services and supplies:

(A) Drugs and medicines upon a physician's prescription;

(B) Diagnostic x-ray and laboratory examinations;

(C) X-ray, radium, and radioactive isotopes therapy;

(D) Anesthesia and oxygen;

(E) Rental of iron lung and other durable medical and surgical equipment;

(F) Artificial limbs and eyes, and casts, splints, and trusses;

(G) Professional ambulance service when used to transport the member to or from a hospital when injured by an accident or stricken by a disease;

(H) Dental charges incurred by a member who sustains an accidental injury to his or her teeth and who commences treatment by a legally licensed dentist within ninety days after the accident;

(I) Nursing home confinement or hospital extended care facility;

(J) Physical therapy by a registered physical therapist;

(K) Blood transfusions, including the cost of blood and blood plasma not replaced by voluntary donors;

(L) An optometrist licensed under the provisions of chapter 18.53 RCW.

(23) "Regular interest" means such rate as the director may determine.

(24) "Retiree" for persons who establish membership in the retirement system on or after October 1, 1977, means any member in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by such member.

(25) "Director" means the director of the department.

(26) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(27) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

1 (28) "Plan 1" means the law enforcement officers' and fire
2 fighters' retirement system, plan 1 providing the benefits and funding
3 provisions covering persons who first became members of the system
4 prior to October 1, 1977.

5 (29) "Plan 2" means the law enforcement officers' and fire
6 fighters' retirement system, plan 2 providing the benefits and funding
7 provisions covering persons who first became members of the system on
8 and after October 1, 1977.

9 (30) "Service credit year" means an accumulation of months of
10 service credit which is equal to one when divided by twelve.

11 (31) "Service credit month" means a full service credit month or an
12 accumulation of partial service credit months that are equal to one.

13 (32) "General authority law enforcement agency" means any agency,
14 department, or division of a municipal corporation, political
15 subdivision, or other unit of local government of this state, and any
16 agency, department, or division of state government, having as its
17 primary function the detection and apprehension of persons committing
18 infractions or violating the traffic or criminal laws in general, but
19 not including the Washington state patrol or the department of fish and
20 wildlife. Such an agency, department, or division is distinguished
21 from a limited authority law enforcement agency having as one of its
22 functions the apprehension or detection of persons committing
23 infractions or violating the traffic or criminal laws relating to
24 limited subject areas, including but not limited to, the state
25 departments of natural resources and social and health services, the
26 state gambling commission, the state lottery commission, the state
27 parks and recreation commission, the state utilities and transportation
28 commission, the state liquor control board, and the state department of
29 corrections.

30 **Sec. 2.** RCW 41.32.010 and 1997 c 254 s 3 are each amended to read
31 as follows:

32 As used in this chapter, unless a different meaning is plainly
33 required by the context:

34 (1)(a) "Accumulated contributions" for plan 1 members, means the
35 sum of all regular annuity contributions and, except for the purpose of
36 withdrawal at the time of retirement, any amount paid under RCW
37 41.50.165(2) with regular interest thereon.

1 (b) "Accumulated contributions" for plan 2 members, means the sum
2 of all contributions standing to the credit of a member in the member's
3 individual account, including any amount paid under RCW 41.50.165(2),
4 together with the regular interest thereon.

5 (2) "Actuarial equivalent" means a benefit of equal value when
6 computed upon the basis of such mortality tables and regulations as
7 shall be adopted by the director and regular interest.

8 (3) "Annuity" means the moneys payable per year during life by
9 reason of accumulated contributions of a member.

10 (4) "Member reserve" means the fund in which all of the accumulated
11 contributions of members are held.

12 (5)(a) "Beneficiary" for plan 1 members, means any person in
13 receipt of a retirement allowance or other benefit provided by this
14 chapter.

15 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
16 in receipt of a retirement allowance or other benefit provided by this
17 chapter resulting from service rendered to an employer by another
18 person.

19 (6) "Contract" means any agreement for service and compensation
20 between a member and an employer.

21 (7) "Creditable service" means membership service plus prior
22 service for which credit is allowable. This subsection shall apply
23 only to plan 1 members.

24 (8) "Dependent" means receiving one-half or more of support from a
25 member.

26 (9) "Disability allowance" means monthly payments during
27 disability. This subsection shall apply only to plan 1 members.

28 (10)(a) "Earnable compensation" for plan 1 members, means:

29 (i) All salaries and wages paid by an employer to an employee
30 member of the retirement system for personal services rendered during
31 a fiscal year. In all cases where compensation includes maintenance
32 the employer shall fix the value of that part of the compensation not
33 paid in money.

34 (ii) "Earnable compensation" for plan 1 members also includes the
35 following actual or imputed payments, which are not paid for personal
36 services:

37 (A) Retroactive payments to an individual by an employer on
38 reinstatement of the employee in a position, or payments by an employer

1 to an individual in lieu of reinstatement in a position which are
2 awarded or granted as the equivalent of the salary or wages which the
3 individual would have earned during a payroll period shall be
4 considered earnable compensation and the individual shall receive the
5 equivalent service credit.

6 (B) If a leave of absence, without pay, is taken by a member for
7 the purpose of serving as a member of the state legislature, and such
8 member has served in the legislature five or more years, the salary
9 which would have been received for the position from which the leave of
10 absence was taken shall be considered as compensation earnable if the
11 employee's contribution thereon is paid by the employee. In addition,
12 where a member has been a member of the state legislature for five or
13 more years, earnable compensation for the member's two highest
14 compensated consecutive years of service shall include a sum not to
15 exceed thirty-six hundred dollars for each of such two consecutive
16 years, regardless of whether or not legislative service was rendered
17 during those two years.

18 (iii) For members employed less than full time under written
19 contract with a school district, or community college district, in an
20 instructional position, for which the member receives service credit of
21 less than one year in all of the years used to determine the earnable
22 compensation used for computing benefits due under RCW 41.32.497,
23 41.32.498, and 41.32.520, the member may elect to have earnable
24 compensation defined as provided in RCW 41.32.345. For the purposes of
25 this subsection, the term "instructional position" means a position in
26 which more than seventy-five percent of the member's time is spent as
27 a classroom instructor (including office hours), a librarian, or a
28 counselor. Earnable compensation shall be so defined only for the
29 purpose of the calculation of retirement benefits and only as necessary
30 to insure that members who receive fractional service credit under RCW
31 41.32.270 receive benefits proportional to those received by members
32 who have received full-time service credit.

33 (iv) "Earnable compensation" does not include:

34 (A) Remuneration for unused sick leave authorized under RCW
35 41.04.340, 28A.400.210, or 28A.310.490;

36 (B) Remuneration for unused annual leave in excess of thirty days
37 as authorized by RCW 43.01.044 and 43.01.041.

1 (b) "Earnable compensation" for plan 2 and plan 3 members, means
2 salaries or wages earned by a member during a payroll period for
3 personal services, including overtime payments, and shall include wages
4 and salaries deferred under provisions established pursuant to sections
5 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
6 shall exclude lump sum payments for deferred annual sick leave, unused
7 accumulated vacation, unused accumulated annual leave, or any form of
8 severance pay.

9 "Earnable compensation" for plan 2 and plan 3 members also includes
10 the following actual or imputed payments which, except in the case of
11 (b)(ii)(B) of this subsection, are not paid for personal services:

12 (i) Retroactive payments to an individual by an employer on
13 reinstatement of the employee in a position or payments by an employer
14 to an individual in lieu of reinstatement in a position which are
15 awarded or granted as the equivalent of the salary or wages which the
16 individual would have earned during a payroll period shall be
17 considered earnable compensation, to the extent provided above, and the
18 individual shall receive the equivalent service credit.

19 (ii) In any year in which a member serves in the legislature the
20 member shall have the option of having such member's earnable
21 compensation be the greater of:

22 (A) The earnable compensation the member would have received had
23 such member not served in the legislature; or

24 (B) Such member's actual earnable compensation received for
25 teaching and legislative service combined. Any additional
26 contributions to the retirement system required because compensation
27 earnable under (b)(ii)(A) of this subsection is greater than
28 compensation earnable under (b)(ii)(B) of this subsection shall be paid
29 by the member for both member and employer contributions.

30 (11) "Employer" means the state of Washington, the school district,
31 or any agency of the state of Washington by which the member is paid.

32 (12) "Fiscal year" means a year which begins July 1st and ends June
33 30th of the following year.

34 (13) "Former state fund" means the state retirement fund in
35 operation for teachers under chapter 187, Laws of 1923, as amended.

36 (14) "Local fund" means any of the local retirement funds for
37 teachers operated in any school district in accordance with the
38 provisions of chapter 163, Laws of 1917 as amended.

1 (15) "Member" means any teacher included in the membership of the
2 retirement system. Also, any other employee of the public schools who,
3 on July 1, 1947, had not elected to be exempt from membership and who,
4 prior to that date, had by an authorized payroll deduction, contributed
5 to the member reserve.

6 (16) "Membership service" means service rendered subsequent to the
7 first day of eligibility of a person to membership in the retirement
8 system: PROVIDED, That where a member is employed by two or more
9 employers the individual shall receive no more than one service credit
10 month during any calendar month in which multiple service is rendered.
11 The provisions of this subsection shall apply only to plan 1 members.

12 (17) "Pension" means the moneys payable per year during life from
13 the pension reserve.

14 (18) "Pension reserve" is a fund in which shall be accumulated an
15 actuarial reserve adequate to meet present and future pension
16 liabilities of the system and from which all pension obligations are to
17 be paid.

18 (19) "Prior service" means service rendered prior to the first date
19 of eligibility to membership in the retirement system for which credit
20 is allowable. The provisions of this subsection shall apply only to
21 plan 1 members.

22 (20) "Prior service contributions" means contributions made by a
23 member to secure credit for prior service. The provisions of this
24 subsection shall apply only to plan 1 members.

25 (21) "Public school" means any institution or activity operated by
26 the state of Washington or any instrumentality or political subdivision
27 thereof employing teachers, except the University of Washington and
28 Washington State University.

29 (22) "Regular contributions" means the amounts required to be
30 deducted from the compensation of a member and credited to the member's
31 individual account in the member reserve. This subsection shall apply
32 only to plan 1 members.

33 (23) "Regular interest" means such rate as the director may
34 determine.

35 (24) (a) "Retirement allowance" for plan 1 members, means monthly
36 payments based on the sum of annuity and pension, or any optional
37 benefits payable in lieu thereof.

1 (b) "Retirement allowance" for plan 2 and plan 3 members, means
2 monthly payments to a retiree or beneficiary as provided in this
3 chapter.

4 (25) "Retirement system" means the Washington state teachers'
5 retirement system.

6 (26) (a) "Service" for plan 1 members means the time during which a
7 member has been employed by an employer for compensation.

8 (i) If a member is employed by two or more employers the individual
9 shall receive no more than one service credit month during any calendar
10 month in which multiple service is rendered.

11 (ii) As authorized by RCW 28A.400.300, up to forty-five days of
12 sick leave may be creditable as service solely for the purpose of
13 determining eligibility to retire under RCW 41.32.470.

14 (iii) As authorized in RCW 41.32.065, service earned in an out-of-
15 state retirement system that covers teachers in public schools may be
16 applied solely for the purpose of determining eligibility to retire
17 under RCW 41.32.470.

18 (b) "Service" for plan 2 and plan 3 members, means periods of
19 employment by a member for one or more employers for which earnable
20 compensation is earned subject to the following conditions:

21 (i) A member employed in an eligible position or as a substitute
22 shall receive one service credit month for each month of September
23 through August of the following year if he or she earns earnable
24 compensation for eight hundred ten or more hours during that period and
25 is employed during nine of those months, except that a member may not
26 receive credit for any period prior to the member's employment in an
27 eligible position except as provided in RCW 41.32.812 and 41.50.132;

28 (ii) If a member is employed either in an eligible position or as
29 a substitute teacher for nine months of the twelve month period between
30 September through August of the following year but earns earnable
31 compensation for less than eight hundred ten hours but for at least six
32 hundred thirty hours, he or she will receive one-half of a service
33 credit month for each month of the twelve month period;

34 (iii) All other members in an eligible position or as a substitute
35 teacher shall receive service credit as follows:

36 (A) A service credit month is earned in those calendar months where
37 earnable compensation is earned for ninety or more hours;

1 (B) A half-service credit month is earned in those calendar months
2 where earnable compensation is earned for at least seventy hours but
3 less than ninety hours; and

4 (C) A quarter-service credit month is earned in those calendar
5 months where earnable compensation is earned for less than seventy
6 hours ~~((-))~~;

7 (iv) Any person who is a member of the teachers' retirement system
8 and who is elected or appointed to a state elective position may
9 continue to be a member of the retirement system and continue to
10 receive a service credit month for each of the months in a state
11 elective position by making the required member contributions ~~((-))~~;

12 (v) Any person who is a member of the teachers' retirement system
13 plan 2 or plan 3 and who is elected or appointed to a state elective
14 position has the option during a ninety-day period at the beginning of
15 each term of office either to resume membership or to end membership in
16 the retirement system and if otherwise eligible begin their retirement
17 allowance. A state elected official who chooses to end membership at
18 the beginning of a term of office and begin their retirement allowance
19 shall neither make contributions nor earn service credit for the
20 duration of that term;

21 (vi) When an individual is employed by two or more employers the
22 individual shall only receive one month's service credit during any
23 calendar month in which multiple service for ninety or more hours is
24 rendered ~~((-))~~;

25 ~~((vi))~~ (vii) As authorized by RCW 28A.400.300, up to forty-five
26 days of sick leave may be creditable as service solely for the purpose
27 of determining eligibility to retire under RCW 41.32.470. For purposes
28 of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is
29 equal to two service credit months. Use of less than forty-five days
30 of sick leave is creditable as allowed under this subsection as
31 follows:

32 (A) Less than eleven days equals one-quarter service credit month;

33 (B) Eleven or more days but less than twenty-two days equals one-
34 half service credit month;

35 (C) Twenty-two days equals one service credit month;

36 (D) More than twenty-two days but less than thirty-three days
37 equals one and one-quarter service credit month; and

1 (E) Thirty-three or more days but less than forty-five days equals
2 one and one-half service credit month(~~(F)~~);

3 (~~(vii)~~) (viii) As authorized in RCW 41.32.065, service earned in
4 an out-of-state retirement system that covers teachers in public
5 schools may be applied solely for the purpose of determining
6 eligibility to retire under RCW 41.32.470(~~(F)~~);

7 (~~(viii)~~) (ix) The department shall adopt rules implementing this
8 subsection.

9 (27) "Service credit year" means an accumulation of months of
10 service credit which is equal to one when divided by twelve.

11 (28) "Service credit month" means a full service credit month or an
12 accumulation of partial service credit months that are equal to one.

13 (29) "Teacher" means any person qualified to teach who is engaged
14 by a public school in an instructional, administrative, or supervisory
15 capacity. The term includes state, educational service district, and
16 school district superintendents and their assistants and all employees
17 certificated by the superintendent of public instruction; and in
18 addition thereto any full time school doctor who is employed by a
19 public school and renders service of an instructional or educational
20 nature.

21 (30) "Average final compensation" for plan 2 and plan 3 members,
22 means the member's average earnable compensation of the highest
23 consecutive sixty service credit months prior to such member's
24 retirement, termination, or death. Periods constituting authorized
25 leaves of absence may not be used in the calculation of average final
26 compensation except under RCW 41.32.810(2).

27 (31) "Retiree" means any person who has begun accruing a retirement
28 allowance or other benefit provided by this chapter resulting from
29 service rendered to an employer while a member.

30 (32) "Department" means the department of retirement systems
31 created in chapter 41.50 RCW.

32 (33) "Director" means the director of the department.

33 (34) "State elective position" means any position held by any
34 person elected or appointed to statewide office or elected or appointed
35 as a member of the legislature.

36 (35) "State actuary" or "actuary" means the person appointed
37 pursuant to RCW 44.44.010(2).

38 (36) "Substitute teacher" means:

1 (a) A teacher who is hired by an employer to work as a temporary
2 teacher, except for teachers who are annual contract employees of an
3 employer and are guaranteed a minimum number of hours; or

4 (b) Teachers who either (i) work in ineligible positions for more
5 than one employer or (ii) work in an ineligible position or positions
6 together with an eligible position.

7 (37) (a) "Eligible position" for plan 2 members from June 7, 1990,
8 through September 1, 1991, means a position which normally requires two
9 or more uninterrupted months of creditable service during September
10 through August of the following year.

11 (b) "Eligible position" for plan 2 and plan 3 on and after
12 September 1, 1991, means a position that, as defined by the employer,
13 normally requires five or more months of at least seventy hours of
14 earnable compensation during September through August of the following
15 year.

16 (c) For purposes of this chapter an employer shall not define
17 "position" in such a manner that an employee's monthly work for that
18 employer is divided into more than one position.

19 (d) The elected position of the superintendent of public
20 instruction is an eligible position.

21 (38) "Plan 1" means the teachers' retirement system, plan 1
22 providing the benefits and funding provisions covering persons who
23 first became members of the system prior to October 1, 1977.

24 (39) "Plan 2" means the teachers' retirement system, plan 2
25 providing the benefits and funding provisions covering persons who
26 first became members of the system on and after October 1, 1977, and
27 prior to July 1, 1996.

28 (40) "Plan 3" means the teachers' retirement system, plan 3
29 providing the benefits and funding provisions covering persons who
30 first become members of the system on and after July 1, 1996, or who
31 transfer under RCW 41.32.817.

32 (41) "Index" means, for any calendar year, that year's annual
33 average consumer price index, Seattle, Washington area, for urban wage
34 earners and clerical workers, all items compiled by the bureau of labor
35 statistics, United States department of labor.

36 (42) "Index A" means the index for the year prior to the
37 determination of a postretirement adjustment.

38 (43) "Index B" means the index for the year prior to index A.

1 (44) "Index year" means the earliest calendar year in which the
2 index is more than sixty percent of index A.

3 (45) "Adjustment ratio" means the value of index A divided by index
4 B.

5 (46) "Annual increase" means, initially, fifty-nine cents per month
6 per year of service which amount shall be increased each July 1st by
7 three percent, rounded to the nearest cent.

8 (47) "Member account" or "member's account" for purposes of plan 3
9 means the sum of the contributions and earnings on behalf of the member
10 in the defined contribution portion of plan 3.

11 (48) "Separation from service or employment" occurs when a person
12 has terminated all employment with an employer.

13 (49) "Employed" or "employee" means a person who is providing
14 services for compensation to an employer, unless the person is free
15 from the employer's direction and control over the performance of work.
16 The department shall adopt rules and interpret this subsection
17 consistent with common law.

18 **Sec. 3.** RCW 41.32.263 and 1991 c 35 s 41 are each amended to read
19 as follows:

20 A member of the retirement system who is a member of the state
21 legislature or a state official eligible for the combined pension and
22 annuity provided by RCW 41.32.497, or 41.32.498, as now or hereafter
23 amended shall have deductions taken from his or her salary in the
24 amount of seven and one-half percent of earnable compensation and that
25 service credit shall be established with the retirement system while
26 such deductions are reported to the retirement system, unless he or she
27 has by reason of his or her employment become a contributing member of
28 another public retirement system in the state of Washington. Such
29 elected official who has retired or otherwise terminated his or her
30 public school service may then elect to terminate his or her membership
31 in the retirement system and receive retirement benefits while
32 continuing to serve as an elected official. A member of the retirement
33 system who had previous service as an elected or appointed official,
34 for which he or she did not contribute to the retirement system, may
35 receive credit for such legislative service unless he or she has
36 received credit for that service in another state retirement system,

1 upon making contributions in such amounts as shall be determined by the
2 (~~board of trustees~~) director.

3 **Sec. 4.** RCW 41.35.030 and 1998 c 341 s 4 are each amended to read
4 as follows:

5 Membership in the retirement system shall consist of all regularly
6 compensated classified employees and appointive and elective officials
7 of employers, as defined in this chapter, with the following
8 exceptions:

9 (1) Persons in ineligible positions;

10 (2) (a) Persons holding elective offices or persons appointed
11 directly by the governor: PROVIDED, That such persons shall have the
12 option of applying for membership during such periods of employment:
13 AND PROVIDED FURTHER, That any persons holding or who have held
14 elective offices or persons appointed by the governor who are members
15 in the retirement system and who have, prior to becoming such members,
16 previously held an elective office, and did not at the start of such
17 initial or successive terms of office exercise their option to become
18 members, may apply for membership to be effective during such term or
19 terms of office, and shall be allowed to establish the service credit
20 applicable to such term or terms of office upon payment of the employee
21 contributions therefor by the employee with interest as determined by
22 the director and employer contributions therefor by the employer or
23 employee with interest as determined by the director: AND PROVIDED
24 FURTHER, That all contributions with interest submitted by the employee
25 under this subsection shall be placed in the employee's individual
26 account in the employee's savings fund and be treated as any other
27 contribution made by the employee, with the exception that any
28 contributions submitted by the employee in payment of the employer's
29 obligation, together with the interest the director may apply to the
30 employer's contribution, shall not be considered part of the member's
31 annuity for any purpose except withdrawal of contributions;

32 (b) A member holding elective office who has elected to apply for
33 membership pursuant to (a) of this subsection and who later wishes to
34 be eligible for a retirement allowance shall have the option of ending
35 his or her membership in the retirement system. A member wishing to
36 end his or her membership under this subsection must file on a form
37 supplied by the department a statement indicating that the member

1 agrees to irrevocably abandon any claim for service for future periods
2 served as an elected official. Except for members in state elective
3 positions, a member who receives more than fifteen thousand dollars per
4 year in compensation for his or her elective service, adjusted annually
5 for inflation by the director, is not eligible for the option provided
6 by this subsection (2)(b). A member in a state elective position may
7 apply to end his or her membership and be eligible for a retirement
8 allowance during a ninety-day period at the beginning of each term of
9 office regardless of the compensation they receive for elective
10 service;

11 (3) Retirement system retirees: PROVIDED, That following
12 reemployment in an eligible position, a retiree may elect to
13 prospectively become a member of the retirement system if otherwise
14 eligible;

15 (4) Persons enrolled in state-approved apprenticeship programs,
16 authorized under chapter 49.04 RCW, and who are employed by employers
17 to earn hours to complete such apprenticeship programs, if the employee
18 is a member of a union-sponsored retirement plan and is making
19 contributions to such a retirement plan or if the employee is a member
20 of a Taft-Hartley retirement plan;

21 (5) Persons rendering professional services to an employer on a
22 fee, retainer, or contract basis or when the income from these services
23 is less than fifty percent of the gross income received from the
24 person's practice of a profession;

25 (6) Employees who (a) are not citizens of the United States, (b) do
26 not reside in the United States, and (c) perform duties outside of the
27 United States;

28 (7) Employees who (a) are not citizens of the United States, (b)
29 are not covered by chapter 41.48 RCW, (c) are not excluded from
30 membership under this chapter or chapter 41.04 RCW, (d) are residents
31 of this state, and (e) make an irrevocable election to be excluded from
32 membership, in writing, which is submitted to the director within
33 thirty days after employment in an eligible position;

34 (8) Employees who are citizens of the United States and who reside
35 and perform duties for an employer outside of the United States:
36 PROVIDED, That unless otherwise excluded under this chapter or chapter
37 41.04 RCW, the employee may apply for membership (a) within thirty days
38 after employment in an eligible position and membership service credit

1 shall be granted from the first day of membership service, and (b)
2 after this thirty-day period, but membership service credit shall be
3 granted only if payment is made for the noncredited membership service
4 under RCW 41.50.165(2), otherwise service shall be from the date of
5 application.

6 **Sec. 5.** RCW 41.40.023 and 2001 c 37 s 1 are each amended to read
7 as follows:

8 Membership in the retirement system shall consist of all regularly
9 compensated employees and appointive and elective officials of
10 employers, as defined in this chapter, with the following exceptions:

11 (1) Persons in ineligible positions;

12 (2) Employees of the legislature except the officers thereof
13 elected by the members of the senate and the house and legislative
14 committees, unless membership of such employees be authorized by the
15 said committee;

16 (3) (a) Persons holding elective offices or persons appointed
17 directly by the governor: PROVIDED, That such persons shall have the
18 option of applying for membership during such periods of employment:
19 AND PROVIDED FURTHER, That any persons holding or who have held
20 elective offices or persons appointed by the governor who are members
21 in the retirement system and who have, prior to becoming such members,
22 previously held an elective office, and did not at the start of such
23 initial or successive terms of office exercise their option to become
24 members, may apply for membership to be effective during such term or
25 terms of office, and shall be allowed to establish the service credit
26 applicable to such term or terms of office upon payment of the employee
27 contributions therefor by the employee with interest as determined by
28 the director and employer contributions therefor by the employer or
29 employee with interest as determined by the director: AND PROVIDED
30 FURTHER, That all contributions with interest submitted by the employee
31 under this subsection shall be placed in the employee's individual
32 account in the employee's savings fund and be treated as any other
33 contribution made by the employee, with the exception that any
34 contributions submitted by the employee in payment of the employer's
35 obligation, together with the interest the director may apply to the
36 employer's contribution, shall not be considered part of the member's
37 annuity for any purpose except withdrawal of contributions;

1 (b) A member holding elective office who has elected to apply for
2 membership pursuant to (a) of this subsection and who later wishes to
3 be eligible for a retirement allowance shall have the option of ending
4 his or her membership in the retirement system. A member wishing to
5 end his or her membership under this subsection must file, on a form
6 supplied by the department, a statement indicating that the member
7 agrees to irrevocably abandon any claim for service for future periods
8 served as an elected official. Except for members in state elective
9 positions, a member who receives more than fifteen thousand dollars per
10 year in compensation for his or her elective service, adjusted annually
11 for inflation by the director, is not eligible for the option provided
12 by this subsection (3)(b). A member in a state elective position may
13 apply to end his or her membership and be eligible for a retirement
14 allowance during a ninety-day period at the beginning of each term of
15 office regardless of the compensation they receive for elective
16 service;

17 (4) Employees holding membership in, or receiving pension benefits
18 under, any retirement plan operated wholly or in part by an agency of
19 the state or political subdivision thereof, or who are by reason of
20 their current employment contributing to or otherwise establishing the
21 right to receive benefits from any such retirement plan except as
22 follows:

23 (a) In any case where the retirement system has in existence an
24 agreement with another retirement system in connection with exchange of
25 service credit or an agreement whereby members can retain service
26 credit in more than one system, such an employee shall be allowed
27 membership rights should the agreement so provide;

28 (b) An employee shall be allowed membership if otherwise eligible
29 while receiving survivor's benefits;

30 (c) An employee shall not either before or after June 7, 1984, be
31 excluded from membership or denied service credit pursuant to this
32 subsection solely on account of: (i) Membership in the plan created
33 under chapter 2.14 RCW; or (ii) enrollment under the relief and
34 compensation provisions or the pension provisions of the volunteer fire
35 fighters' relief and pension fund under chapter 41.24 RCW;

36 (d) Except as provided in RCW 41.40.109, on or after July 25, 1999,
37 an employee shall not be excluded from membership or denied service

1 credit pursuant to this subsection solely on account of participation
2 in a defined contribution pension plan qualified under section 401 of
3 the internal revenue code;

4 (e) Employees who have been reported in the retirement system prior
5 to July 25, 1999, and who participated during the same period of time
6 in a defined contribution pension plan qualified under section 401 of
7 the internal revenue code and operated wholly or in part by the
8 employer, shall not be excluded from previous retirement system
9 membership and service credit on account of such participation;

10 (5) Patient and inmate help in state charitable, penal, and
11 correctional institutions;

12 (6) "Members" of a state veterans' home or state soldiers' home;

13 (7) Persons employed by an institution of higher learning or
14 community college, primarily as an incident to and in furtherance of
15 their education or training, or the education or training of a spouse;

16 (8) Employees of an institution of higher learning or community
17 college during the period of service necessary to establish eligibility
18 for membership in the retirement plans operated by such institutions;

19 (9) Persons rendering professional services to an employer on a
20 fee, retainer, or contract basis or when the income from these services
21 is less than fifty percent of the gross income received from the
22 person's practice of a profession;

23 (10) Persons appointed after April 1, 1963, by the liquor control
24 board as agency vendors;

25 (11) Employees of a labor guild, association, or organization:
26 PROVIDED, That elective officials and employees of a labor guild,
27 association, or organization which qualifies as an employer within this
28 chapter shall have the option of applying for membership;

29 (12) Retirement system retirees: PROVIDED, That following
30 reemployment in an eligible position, a retiree may elect to
31 prospectively become a member of the retirement system if otherwise
32 eligible;

33 (13) Persons employed by or appointed or elected as an official of
34 a first class city that has its own retirement system: PROVIDED, That
35 any member elected or appointed to an elective office on or after April
36 1, 1971, shall have the option of continuing as a member of this system
37 in lieu of becoming a member of the city system. A member who elects
38 to continue as a member of this system shall pay the appropriate member

1 contributions and the city shall pay the employer contributions at the
2 rates prescribed by this chapter. The city shall also transfer to this
3 system all of such member's accumulated contributions together with
4 such further amounts as necessary to equal all employee and employer
5 contributions which would have been paid into this system on account of
6 such service with the city and thereupon the member shall be granted
7 credit for all such service. Any city that becomes an employer as
8 defined in RCW 41.40.010(4) as the result of an individual's election
9 under this subsection shall not be required to have all employees
10 covered for retirement under the provisions of this chapter. Nothing
11 in this subsection shall prohibit a city of the first class with its
12 own retirement system from: (a) Transferring all of its current
13 employees to the retirement system established under this chapter, or
14 (b) allowing newly hired employees the option of continuing coverage
15 under the retirement system established by this chapter.

16 Notwithstanding any other provision of this chapter, persons
17 transferring from employment with a first class city of over four
18 hundred thousand population that has its own retirement system to
19 employment with the state department of agriculture may elect to remain
20 within the retirement system of such city and the state shall pay the
21 employer contributions for such persons at like rates as prescribed for
22 employers of other members of such system;

23 (14) Employees who (a) are not citizens of the United States, (b)
24 do not reside in the United States, and (c) perform duties outside of
25 the United States;

26 (15) Employees who (a) are not citizens of the United States, (b)
27 are not covered by chapter 41.48 RCW, (c) are not excluded from
28 membership under this chapter or chapter 41.04 RCW, (d) are residents
29 of this state, and (e) make an irrevocable election to be excluded from
30 membership, in writing, which is submitted to the director within
31 thirty days after employment in an eligible position;

32 (16) Employees who are citizens of the United States and who reside
33 and perform duties for an employer outside of the United States:

34 PROVIDED, That unless otherwise excluded under this chapter or chapter
35 41.04 RCW, the employee may apply for membership (a) within thirty days
36 after employment in an eligible position and membership service credit
37 shall be granted from the first day of membership service, and (b)
38 after this thirty-day period, but membership service credit shall be

1 granted only if payment is made for the noncredited membership service
2 under RCW 41.50.165(2), otherwise service shall be from the date of
3 application;

4 (17) The city manager or chief administrative officer of a city or
5 town, other than a retiree, who serves at the pleasure of an appointing
6 authority: PROVIDED, That such persons shall have the option of
7 applying for membership within thirty days from date of their
8 appointment to such positions. Persons serving in such positions as of
9 April 4, 1986, shall continue to be members in the retirement system
10 unless they notify the director in writing prior to December 31, 1986,
11 of their desire to withdraw from membership in the retirement system.
12 A member who withdraws from membership in the system under this section
13 shall receive a refund of the member's accumulated contributions.

14 Persons serving in such positions who have not opted for membership
15 within the specified thirty days, may do so by paying the amount
16 required under RCW 41.50.165(2) for the period from the date of their
17 appointment to the date of acceptance into membership;

18 (18) Persons serving as: (a) The chief administrative officer of
19 a public utility district as defined in RCW 54.16.100; (b) the chief
20 administrative officer of a port district formed under chapter 53.04
21 RCW; or (c) the chief administrative officer of a county who serves at
22 the pleasure of an appointing authority: PROVIDED, That such persons
23 shall have the option of applying for membership within thirty days
24 from the date of their appointment to such positions. Persons serving
25 in such positions as of July 25, 1999, shall continue to be members in
26 the retirement system unless they notify the director in writing prior
27 to December 31, 1999, of their desire to withdraw from membership in
28 the retirement system. A member who withdraws from membership in the
29 system under this section shall receive a refund of the member's
30 accumulated contributions upon termination of employment or as
31 otherwise consistent with the plan's tax qualification status as
32 defined in internal revenue code section 401.

33 Persons serving in such positions who have not opted for membership
34 within the specified thirty days, may do so at a later date by paying
35 the amount required under RCW 41.50.165(2) for the period from the date
36 of their appointment to the date of acceptance into membership;

37 (19) Persons enrolled in state-approved apprenticeship programs,
38 authorized under chapter 49.04 RCW, and who are employed by local

1 governments to earn hours to complete such apprenticeship programs, if
2 the employee is a member of a union-sponsored retirement plan and is
3 making contributions to such a retirement plan or if the employee is a
4 member of a Taft-Hartley retirement plan;
5 (20) Beginning on July 22, 2001, persons employed exclusively as
6 trainers or trainees in resident apprentice training programs operated
7 by housing authorities authorized under chapter 35.82 RCW, (a) if the
8 trainer or trainee is a member of a union-sponsored retirement plan and
9 is making contributions to such a retirement plan or (b) if the
10 employee is a member of a Taft-Hartley retirement plan.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/16/02	Z-0208.1 Elected Officials

SUMMARY:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System plan 2, the Public Employees Retirement System, the Teachers' Retirement System plan 2 and plan 3, and the School Employees' Retirement System by permitting members who are state elected officials, and otherwise eligible, to retire and begin their retirement allowance each term of office. A state elected official member who chooses to end membership at the beginning of a term of office shall neither make contributions nor earn service credit for the duration of that term.

Effective Date: 90 days after session.

BACKGROUND DISCUSSION:

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receipt of their retirement benefits regardless of age. While the rules for state elected officials vary by system and plan, the Teachers' Retirement System plan 1 is a notable distinction in permitting state elected officials, if otherwise eligible, to begin their retirement benefit while serving in state elective office.

MEMBERS IMPACTED:

A small number of state elected officials including Legislators and state-wide elected officials would be affected by this change.

FISCAL IMPACT:

Insufficient impact to affect the contribution rates.

EMTs into LEOFF

Background:

Emergency Medical Technicians (EMTs) employed by local governments in health departments or other similar divisions of local governments are members of the Public Employees' Retirement System (PERS). All employees enrolled in PERS Plan 2/3 may receive an unreduced retirement allowance at age 65.

Some EMTs have had their jobs moved from various departments in local government to fire departments. Upon meeting all the requirements to become fire fighters these EMTs become members of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2). Members of LEOFF 2 may retire with an unreduced allowance at age 53.

Committee Activity:

Presentation:

July, 10, 2002, Full Committee Meeting

October 16, 2002, Full Committee Meeting

Proposal Approved:

December 4, 2002

Recommendation to Legislature:

Permit EMTs who are members of LEOFF 2, and whose jobs were moved from a local government department, to transfer past service credit earned as an EMT to LEOFF 2.

A member who elects to transfer eligible service credit earned in PERS 1 or 2 to LEOFF 2 must pay the difference in employee contributions plus interest. The service credit shall be transferred no earlier than five years following the effective date the member elects to transfer.

Upon transfer of the employee's contributions and service credit an equal amount of employer contributions shall be transferred. Any additional cost becomes the liability of LEOFF 2 and is incorporated into the ongoing LEOFF 2 contribution rates paid by members, employers and the State.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

EMT's into LEOFF

Description of 2002 Emergency Medical Technician Bills HB 2896/SB 6781 *Issue Summary*

Background:

Emergency Medical Technicians (EMTs) employed by local governments in health departments or other similar divisions of local governments are members of the Public Employees' Retirement System (PERS). All employees first employed in PERS-eligible positions since 1977 have been enrolled in PERS plan 2/3, which allows for an unreduced retirement allowance at age 65.

Some EMTs have had their jobs moved from various departments in local government to fire departments. Upon meeting all the requirements to become fire fighters, such as training and passing applicable examinations, these EMTs employed at fire departments become members of the Law Enforcement Officers' and Fire Fighters' Retirement System plan 2 (LEOFF 2). Members of LEOFF 2 may retire with an unreduced allowance at age 53.

Two employers who have transferred EMTs are the City of Camas and Snohomish County. Twenty-one EMTs from these employers are now employed by fire departments and are in LEOFF 2, and most have prior service in PERS plan 2. The actuarial fiscal notes prepared for several versions of HB 2896 during the 2002 legislative session assess the cost impact for these employees under each bill. Several other employers were reported as considering a similar movement of EMTs to fire departments during the 2002 legislative session, and all versions of the bill would remain effective until July 1, 2007.

Age and Service Credit of Emergency Medical Technicians City of Camas and Snohomish County, 2001

Age	Number	Average years to unreduced retirement
25-29	1	24
30-34	2	20
35-39	1	18
40-44	7	11
45-49	7	6
50-53	5	3
54+	1	—

Members with years of service in each of PERS 2 and LEOFF 2 may currently utilize the portability provisions of state retirement law to combine years of service and average salary for purposes of retirement eligibility, but the retirement ages of each plan still apply to the benefit receivable from each plan.

Summary of Bill Versions:

HB 2896/SB 6781

EMTs whose jobs have been moved from a department of local government to a fire department and are now members of LEOFF 2 may apply to have any service credit earned as an EMT in PERS 2 to LEOFF 2.

An employee moving eligible service credit from PERS 2 to LEOFF 2 is required to pay to the retirement system the difference in contributions, plus interest, that would have been paid by the employee had their entire service been rendered in LEOFF 2. The employee shall complete this payment no later than five years from the date of their transfer or retirement, whichever comes first.

Upon completion of the employee's payment, the employee's contributions plus interest and an equal amount of employer contributions shall be transferred from PERS 2 to LEOFF 2. Any difference in employer contributions made to PERS 2 and the employer and state contributions that would have been made in LEOFF 2 become liabilities of LEOFF 2 and are incorporated into the LEOFF 2 contribution rates paid by all LEOFF 2 employees, employers, and the state.

This bill was passed by the house 88-9 on February 18, 2002.

SHB 2896

The substitute bill recommended by committee altered the amount that employers paid upon the employee's completion of their required payments for transferring service. In addition to the equal amount of employer contributions being transferred from PERS 2 to LEOFF 2, the employer is required to pay an amount sufficient to ensure that the contribution rates to LEOFF 2 do not increase due to the transfer of the employee's past service from PERS 2 to LEOFF 2. The employer is required to make this additional payment within five years of the employee's completion of their transfer payment.

Though recommended by the Appropriations Committee, the House of Representatives passed the original version of HB 2896.

Senate striking amendment S4874.2 to HB 2896

Amending the original bill, the striking amendment permitted both members of PERS 1 and PERS 2 to transfer past service into LEOFF 2. Employees electing to transfer service from PERS 1 or 2 to LEOFF 2 shall not retire with their transferred service under the terms of LEOFF 2 earlier than five years after the effective date the member elects to transfer service.

As in the original bill, employers have an equal amount of employer contributions transferred to LEOFF 2, and any difference in employer contributions made to PERS 2 and the employer and state contributions that would have been made in LEOFF 2 become liabilities of LEOFF 2 and are incorporated into the LEOFF 2 contribution rates paid by all LEOFF 2 employees, employers, and the state.

The Senate Ways and Means Committee adopted this amendment. No further action was taken.

All versions of the bill expire July 1, 2007.

Executive Committee Recommendation:

Permit Emergency Medical Technicians employed by fire departments who are members of LEOFF 2 and whose jobs were moved from a department of local government to transfer past service credit earned as a public EMT to LEOFF 2.

A member who elects to transfer eligible service credit earned in PERS 1 or 2 to LEOFF 2 must pay the difference in employee contributions between those made in PERS, and those that would have made in LEOFF2, plus interest. In addition, the service credit shall be transferred from PERS to LEOFF 2 no earlier than five years following the effective date the member elects to transfer.

Upon transfer of the employee's service credit into LEOFF 2, an equal amount of employer contributions to employee contributions shall be transferred from PERS into LEOFF 2. Any additional cost between the amount of employer contributions transferred from PERS into LEOFF 2 and the value of the service moved into LEOFF 2 become liabilities of LEOFF 2 and are incorporated into the LEOFF 2 contribution rates to be paid by all LEOFF 2 employees, employers, and the state.

1 AN ACT Relating to allowing fire fighter emergency medical
2 technicians to transfer public employees' retirement system service
3 credit to the law enforcement officers' and fire fighters' plan 2;
4 adding a new section to chapter 41.26 RCW; and providing an expiration
5 date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW
8 under the subchapter heading "plan 2" to read as follows:

9 (1) An employee who is eligible for membership in plan 2 and was a
10 member of the public employees' retirement system while employed
11 providing emergency medical services for a city, town, county, or
12 district and whose job was relocated from another department of a city,
13 town, county, or district to a fire department has the following
14 options:

15 (a) Remain a member of the public employees' retirement system; or
16 (b) Leave any service credit earned as a member of the public
17 employees' retirement system in the public employees' retirement

1 system, and have all future service earned in the law enforcement
2 officers' and fire fighters' retirement system plan 2, becoming a dual
3 member under the provisions of chapter 41.54 RCW; or

4 (c) Make an election, filed in writing with the department of
5 retirement systems, to transfer service credit previously earned as an
6 emergency medical technician for a city, town, county, or district in
7 the public employees' retirement system plan 1 or plan 2 to the law
8 enforcement officers' and fire fighters' retirement system plan 2 as
9 defined in RCW 41.26.030. Service credit that a member elects to
10 transfer from the public employees' retirement system to the law
11 enforcement officers' and fire fighters' retirement system under this
12 section shall be transferred no earlier than five years after the
13 effective date the member elects to transfer, and only after the member
14 earns five years of service credit as a fire fighter following the
15 effective date the member elects to transfer.

16 (2) An employee who is eligible for membership in plan 1 and was a
17 member of the public employees' retirement system while employed
18 providing emergency medical services for a city, town, county, or
19 district and whose job was relocated from another department of a city,
20 town, county, or district to a fire department has the following
21 options:

22 (a) Remain a member of the public employees' retirement system; or

23 (b) Leave any service credit earned as a member of the public
24 employees' retirement system in the public employees' retirement
25 system, and have all future service earned in the law enforcement
26 officers' and fire fighters' retirement system plan 1, becoming a dual
27 member under the provisions of chapter 41.54 RCW.

28 (3) (a) A member who elects to transfer service credit under
29 subsection (1) (c) of this section shall make the payments required by
30 this subsection prior to having service credit earned as an emergency
31 medical technician for a city, town, county, or district under the
32 public employees' retirement system plan 1 or plan 2 transferred to the
33 law enforcement officers' and fire fighters' retirement system plan 2.
34 However, in no event shall service credit be transferred earlier than
35 five years after the effective date the member elects to transfer, or
36 prior to the member earning five years of service credit as a fire
37 fighter following the effective date the member elects to transfer.

1 (b) A member who elects to transfer service credit under this
2 subsection shall pay, for the applicable period of service, the
3 difference between the contributions the employee paid to the public
4 employees' retirement system plan 1 or plan 2 and the contributions
5 that would have been paid by the employee had the employee been a
6 member of the law enforcement officers' and fire fighters' retirement
7 system plan 2, plus interest on this difference as determined by the
8 director. This payment must be made no later than five years from the
9 effective date of the election made under subsection (1)(b) of this
10 section.

11 (c) No earlier than five years after the effective date the member
12 elects to transfer service credit under this section and upon
13 completion of the payment required in (b) of this subsection, the
14 department shall transfer from the public employees' retirement system
15 plan 1 or plan 2 to the law enforcement officers' and fire fighters'
16 retirement system plan 2: (i) All of the employee's applicable
17 accumulated contributions plus interest and an equal amount of employer
18 contributions; and (ii) all applicable months of service, as defined in
19 RCW 41.26.030(14)(b), credited to the employee under this chapter for
20 service as an emergency services provider for a city, town, county, or
21 district as though that service was rendered as a member of the law
22 enforcement officers' and fire fighters' retirement system plan 2.

23 (d) Upon transfer of service credit, contributions, and interest
24 under this subsection, the employee is permanently excluded from
25 membership in the public employees' retirement system for all service
26 transfers.

27 NEW SECTION. **Sec. 2.** This act expires July 1, 2007.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/16/02	Z-0207.1 EMTs into LEOFF

SUMMARY:

This bill impacts members of the Public Employees' Retirement System (PERS) and the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) by enabling emergency medical technicians whose jobs were transferred from non-LEOFF employer city, town, county or district departments to fire departments to move past service credit earned as an emergency medical technician in PERS to LEOFF 2.

To move eligible past service credit from PERS to LEOFF 2, an employee is required to make a payment to the retirement system to make up for the difference in contributions, plus interest, that the employee would have made had they been in LEOFF 2 for the PERS service being transferred. This payment must be made no later than 5 years from the effective date of the members election. The employees PERS contributions plus interest, and an equal amount of employer contributions, are moved from PERS to LEOFF 2 upon completion of the employee's required differential payment, but no earlier than 5 years after the effective date of the members election.

This act expires July 1, 2007.

Effective Date: 90 days after session.

BACKGROUND DISCUSSION:

A member who is employed by a department of a city, town, county or district government, like a health department, as an emergency medical technician will normally be a member of PERS. A member who is employed by a city, town, county or district fire department as a fire fighter and/or emergency medical technician may be a member of LEOFF 2. The difference is, in part, because the city, town, county or district health department is not an eligible employer for LEOFF 2.

If an employee's job has been moved from a health department to a fire department, for example through the reorganization of city or county services, they may have service credit for periods of their work as an emergency medical technician in each of PERS and LEOFF, entitling them to portability benefits from each plan under Chapter 41.54 RCW.

MEMBERS IMPACTED:

We have been provided data on 7 Camas County fire fighters who are now in LEOFF and 16 Snohomish County medics who are in process of being moved into LEOFF. Most have prior service in PERS 2. One has service in PERS 1, another is in LEOFF 1. Two others have cashed out their savings fund in PERS 2 and no longer have prior service with PERS 2. We do not have data on any other eligible members from PERS. There are 128,955 active members in PERS 2 and 23,981 active members PERS 1. There are 13,585 active members in LEOFF 2.

Based on the data supplied and assuming the transfer payment is made on the valuation date, the average person would be required to pay \$25,300 to have an average of 11 years of service transferred. Those in LEOFF 2 are eligible to retire at age 53 with an unreduced benefit, and those with 20 or more years of service could retire at age 50 with 91% of their benefit. If this service remained in PERS 2 only those with 20 or more years could retire at age 55 with 37% of their unreduced benefit. The estimated average pay for this group is currently \$69,800 and the average benefit based on this PERS service is $.02 \times 11 \times \$69,800$ or \$15,400 per year. This would be \$15,400 in LEOFF 2 at age 53 vs. \$5,700 payable from PERS 2 starting at age 55 for those eligible and desiring to retire early. (Since this pay is not projected these benefits could be viewed in terms of today's dollars)

FISCAL IMPACT:

Based on the data for 23 members who are known to be affected by this bill, we have determined an average cost. The actual cost will not be known until we know how many members can and will make this election.

Average Per Person

County (EMTs)	<u>Camas (7)</u>	<u>Snohomish (16)</u>	<u>Both (23)</u>
Increase in Present Value of Projected Benefits	\$ 55,100	\$ 175,600	\$ 138,900
Amount Transferred from PERS	(33,100)	(82,900)	(67,800)
Amount Paid by Participant	<u>(9,400)</u>	<u>(32,300)</u>	<u>(25,300)</u>
Net Increase paid from increased contributions	12,600	60,400	45,800

The Rate Increase is divided 50%, 30%, 20% for the employee, employer and state respectively.

Actuarial Determinations:

The impact below is for the 23 employees who are known to be affected by this bill.

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Law Enforcement Officers' and Fire Fighters' Retirement System			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$3,652	\$3	\$3,655
The Value of the Total Commitment to all Current Members			
Unfunded Actuarial Accrued Liability	N/A	N/A	N/A
The Portion of the Plan 1 Liability that is Amortized until 2024			
Unfunded Liability (PBO)	(\$907)	\$1	(\$906)
The Value of the Total Commitment to all Current Members Attributable to Past Service			
Required Contribution Rate			
Employee	5.05%	0.0045%	5.05%
Employer	3.03%	0.0027%	3.03%
State	<u>2.02%</u>	<u>0.0018%</u>	<u>2.02%</u>
Total	10.10%	0.0089%	10.10%

Fiscal Budget Determinations:

Since the increase rounds down there is no fiscal impact.

State Actuary's Comments:

Although the above shows no immediate impact on the contribution rates, because of the open nature of who might be eligible or become eligible, the actual cost is not determinable. A survey done in 2002 indicates there are 276 paramedics who could become eligible to join LEOFF and thus eligible to transfer past service under this bill. If all these members were to become eligible and transfer past service, the total contribution rate would increase over 17 times from 0.0089% (unrounded) to 0.16% (0.08%, 0.05%, 0.03% for the employee, employer and state respectively).

This fiscal note does not consider the impact of Initiative 790.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal bill are based on our understanding of the bill as well as generally accepted actuarial practices including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System plan 2.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

We assume all eligible members would elect to transfer their service.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2003 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2 utilizes the Aggregate Funding Method. The cost of Plan 2 is spread over the average working lifetime of the current active Plan 2 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Projected Benefits: Pension benefit amounts which are expected to be paid in the taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces. The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL. The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Excess Compensation

Background:

The system of billing for certain pay increases that increase pension benefits is referred to as "excess compensation." Compensation included in a member's pension calculation is called "earnable" or "reportable," and if reportable it must fall within limits established by the excess compensation provisions. If the excess compensation limits are exceeded, an employer may be billed for the present value of the excess compensation's increase to the member's benefit.

This system of billing employers for excess compensation equalizes employers who have different PERS Plan 1 cash out practices, or other compensation methods that pay unusual amounts of excess reportable compensation. The system permits employers and employees to agree upon the compensation methods that they believe appropriate without impacting retirement system funding. At the same time, employers with little excess compensation do not pay the additional costs that are created in the retirement Plan by those employers with more excess compensation practices.

Committee Activity:

Presentation:

August 14, 2002, Full Committee Meeting

Recommendation to Legislature:

None.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Excess Compensation

Issue Summary

Issue:

Recent news stories have highlighted the billing of employers for the cost of increased Public Employees' Retirement System pension benefit costs due to certain increases in pay awarded to employees prior to retirement. The system of billing for certain pay increases that impact pension amounts is referred to as "excess compensation."

Background:

Compensation included in a member's pension calculation is called "earnable" or "reportable," and if reportable it must fall within limits established by the excess compensation provisions. If the excess compensation limits are exceeded, an employer may be billed for the present value of the excess compensation's increase to the member's benefit.

Earnable or Reportable Compensation

If an employer pays their employees certain types of compensation that are included in the calculation of their pensions, that compensation is referred to as "earnable" or "reportable compensation." In PERS Plan 1, a member's highest average earnable compensation over a consecutive two-year period is used in conjunction with their service credit total to determine their benefit amount. In contrast, in PERS Plans 2/3 a consecutive sixty month period is used in the calculation of their average final compensation.

Some types of compensation are specifically excluded from being earnable in the various retirement Plans, and there are differences between PERS 1 and PERS 2/3. For example, a member of PERS 1 may cash out annual leave and include it in their pension calculation, but a member in PERS 2/3 may not. The Department of Retirement Systems has adopted extensive regulations that specify what compensation is reportable, and these appear in thirty sections at WAC 415-108-441 through -510.

As an example of the specificity of the rules, WAC 415-108-453:

WAC 415-108-453 Performance bonuses. Bonuses that are based upon meeting certain performance goals are earned for services rendered and are reportable compensation. If a bonus was earned over a specified period of time it should be prorated for reporting purposes.

Example:

An employer pays each employee in the work group an additional \$100 if the work group had no work related accidents in the preceding year. Remaining accident free is a performance goal. Therefore the payment is for services rendered and qualifies as reportable compensation. The bonus should be prorated over each of the preceding twelve months during which it was earned.

[Statutory Authority: RCW 41.50.050. 98-09-059, §§ 415-108-453, filed 4/17/98, effective 5/18/98.]

Excess Compensation

Excess compensation is a term defined in statute referring to specific types of reportable compensation that exceed statutory limits. In some instances a member of PERS 1 may have income that they are entitled to include in the calculation of their benefit that is limited by the excess compensation rules.

If one of the excess compensation limits are exceeded, then the amount that the excess compensation increases the member's pension is calculated at present value according to actuarial tables provided to the Department by the State Actuary and employers are billed this amount.

The statutory basis for the excess compensation provisions are in RCW 41.50.150. The statute defines excess compensation as including:

- A cash out of annual leave in excess of two hundred forty hours.
- A cash out of any other form of leave;
- A payment for any personal expense that is reportable compensation;
- The portion of any payment, including overtime or bonuses, that exceeds twice the regular rate of pay;
- Any termination or severance payment.

Since 1995, RCW 41.50.152 has required that the governing body of employers shall, before entering into employment contracts that include excess compensation, hold a public meeting where the nature of the compensation provision is fully disclosed and provide the employer's estimate of the excess compensation billings that the proposed compensation provision may generate.

Pension "Ballooning" - PERS Plan 1

The following examples generally illustrate how a PERS Plan 1 member's benefit might be increased, or "ballooned," by the inclusion of cash outs, bonuses, or other additional items of reportable compensation included in their pension calculation. The examples contrast the average final compensation (AFC) and the benefit a member would receive with a cash out of \$8000 of leave, and then also a large bonus, that are reportable compensation:

1. Without cash out of leave.

Assume: 30 years of service
Year 1 - \$59,000 Salary
Year 2 - \$61,000 Salary

Formula: $2\% \times \$60,000 \text{ AFC} \times 30 \text{ years} = \$36,000 \text{ annual benefit}$

2. With cash out of leave.

Assume: 30 years of service
Year 1 - \$59,000 Salary
Year 2 - \$61,000 Salary + \$8,000 leave cash out

Formula: $2\% \times \$64,000 \text{ AFC} \times 30 \text{ years} = \$38,400 \text{ annual benefit}$

Result: \$2,400 per year or 6.7% increase in retirement benefit

3. With cash out of leave and a bonus of 125% of salary:

Assume: 30 years of service
Year 1 - \$59,000 Salary
Year 2 - \$61,000 Salary + \$8,000 leave cash out + \$76,000 bonus pay

Formula: $2\% \times \$102,000 \text{ AFC} \times 30 \text{ years} = \$61,200 \text{ annual benefit}$

The excess compensation provisions would apply to require the employer to pay the present cost of the increase in the member's benefit attributable to leave cash out in excess of 240 hours (if any), and that portion of the member's bonus that is in excess of twice the member's regular rate of pay.

Development of the Excess Compensation Statute:

1984 c 184 s 1 (SHB 843) The excess compensation statute was created in section 1 the act. It established the requirement that the employer pay the present value of retirement benefits based on excess compensation at the time of the employee's retirement. Excess compensation included, but was not limited to, lump sum payments for any form of leave, personal expenses, or severance pay.

1995 c 244 s 1 (SSB 5118) Calculation of excess compensation was amended to specifically include any compensation that exceeded twice the regular rate of pay. Prior to passage, the Joint Committee on Pension Policy found that certain employers were avoiding excess compensation charges by disguising certain types of payments as additional regular salary or overtime.

1995 c 387 s 1 (SB 5990) Created RCW 41.50.152, including the requirement that employers fully disclose the excess compensation impact of a proposed compensation provision at a public meeting.

1997 c 221 s 1 (HB 1102) Clarified the application of excess compensation rules as to the extent that a payment qualifies as reportable compensation in the member's retirement system.

1998 c 341 s 509 (SSB 6306) As part of the major legislation creating the School Employees' Retirement System(SERS), reference to SERS was added to the excess compensation provisions.

1998 c 341 s 510 (SSB 6306) Amended 41.50.152 adding reference to SERS.

Significance of Issue to Policy:

This system of billing employers for excess compensation equalizes employers who have different PERS Plan 1 cash out practices, or other compensation methods that pay unusual amounts of excess reportable compensation. The system permits employers and employees to agree upon the compensation methods that they believe appropriate without impacting retirement system funding. At the same time, employers with little excess compensation do not pay the additional costs that are created in the retirement Plan by those employers with more excess compensation practices.



webCAMS

Check out North Central Washington's road conditions, weather or great scenery!

Search

- ☒ Wenworld.com
- ☐ The Web
- ☐ Our classifieds
- ☐ CommunityLink

Local news

[Today's Stories](#)
[Today's Sports](#)
[News Links](#)
[Features](#)
[Business](#)
[Opinion](#)
[Obituaries](#)
[Weather](#)
[News of record](#)
[News archives](#)

Recreation

[Golf](#)
[Hiking, Etc.](#)
[National parks](#)
[State parks](#)
[Skiing](#)
[Rec calendar](#)

A & E

[Movies](#)
[Restaurants](#)
[Local events](#)
[TV listings](#)
[A & E calendar](#)

Community

[Build a web page](#)
[Browse local pages](#)
[Forums](#)
[Transportation](#)
[Lodging](#)
[KBA Press](#)
[Special directories](#)
[Services in NCW](#)

Classifieds

[Classified ads](#)
[HomeFinder](#)
[Personals](#)

WebCams

[Local webcams](#)

Hobbies & Fun

[Genealogy](#)
[Headbone Zone](#)
[Pet of the week](#)

local news

top stories

Browse last week's news stories

[Monday](#) | [Tuesday](#) | [Wednesday](#) | [Thursday](#) | [Friday](#) | [Sunday](#)

Tuesday, June 11, 2002

Bonuses lead to PUD retirement windfall

By Laurie Smith

World staff writer

WENATCHEE - For some Chelan County PUD employees, the bonuses of 2000 and 2001 were the gift that keeps on giving - in the form of greatly increased pensions payable for the rest of their lives.

At the end of May, the state Department of Retirement Systems sent the PUD billings for \$941,329 to cover additional benefits arising from "excess compensation" paid to three employees who retired earlier this year.

Billings of that magnitude are unprecedented for the department, said Steve Nelsen, the agency's legal and legislative services manager. "It's the first time that there has been a billing for excess salary payments of this size," he said Monday.

The PUD's incentive pay plan, which rewarded employees with a share of power-sale proceeds at a time when electricity prices were skyrocketing, "was an unusual program," Nelsen said. "They were able to generate extraordinary profits and so receive extraordinary bonuses."

And in turn, extraordinary pensions - particularly for people covered by the older of two state retirement

news links

Audio News

Need RealAudio?
Download a [free](#)
[copy](#)

ARCHIVES



Lost Cities

News and media
[links](#) in Washington
state.



Contact Us

World Online
Wenatchee World
Newspapers In
Education

Our Partners

Our Partners

systems, Public Employees Retirement System Plan 1 (PERS 1).

The current monthly benefit for a PERS 1 retiree averages \$1,040.

By contrast, a power marketing employee who retired from the PUD in April will receive \$9,700 a month - more than \$116,000 a year - for the rest of his life, Nelsen said. Without the bonuses, he said, the employee's average final salary would have been \$6,786 a month, for a monthly benefit of a little more than \$4,000.

The benefits were based on the marketing employee's average final compensation over two years.

PUD General Manager Charlie Hosken said Monday that district officials question the way the Department of Retirement Systems calculated excess compensation. Hosken said he did expect billings for additional retirement costs.

"I guess I didn't expect it to be quite that much," he said. But Hosken said he had no estimate of how much the PUD believes it should be.

He said the impact on retirement benefits was discussed when PUD incentive pay programs were set up over the past several years, but "I don't recall the specifics."

"This is one that we have to get smarter on," Hosken said.

Hosken defended the PUD's incentive pay program, which has since been revised for power marketers and is being phased out for other employees. Hosken said the reward system helped the PUD put money in the bank and avoid an electrical rate increase at a time when other utilities were struggling. Providing a compensation program that will attract and retain good employees "is a challenge for us," he said.

Gary Montague, president of the PUD's board of commissioners, and district Commissioner Bob Boyd declined to comment on the billings Monday, saying they wanted to wait and see how the Department of Retirement Systems answers the PUD's questions.

"We're confident that the bills are accurate, and we're working with the PUD to help them understand how the bills were calculated," Nelsen said.

Two retirees who had worked in the PUD's power marketing department account for the bulk of the excess compensation: Leon Jeffery, a former power scheduler whose share of the billings amounts to \$479,201; and Michael Green, a former power trader/transmission coordinator whose additional benefits are expected to cost \$406,640.

Additional costs related to excess compensation for a third retiree, former director of materials management Jeannie King, are calculated at \$55,487.

State law defines excess compensation as a payout of more than double a person's normal hourly rate or a cash-out of more than 240 hours of personal leave, Nelsen said.

Another Chelan PUD employee is scheduled to retire next March, at an additional cost to the district of almost \$290,000, he said.

Hosken said the PUD has about 50 PERS 1 employees who are expected to retire in the next couple of years. He said Monday that PUD officials were still trying to determine how many of those people participated in incentive pay programs. He said he believes the number is small.

In response to a Wenatchee World inquiry last July, the PUD reported that 22 PERS 1 employees had collected incentive pay in 2000 and 2001. Four of those people received more than \$100,000 in bonuses each.

PERS 1, which stopped accepting new enrollees in 1977, allows retirement at a younger age than Public Employees Retirement System Plan 2 (PERS 2). A PERS 1 employee can retire at any age after 30 years of service, at age 55 after 25 years of service or at 60 after five years of service. PERS 2 employees can't retire until age 65, Nelsen said.

In another difference, PERS 1 employees' benefits are based on their average final compensation over two years, while PERS 2 employees' pensions are based on a five-year average.

Federal Compliance with Fallen Heros' Survivor Benefit

Background:

According to Section 101(h) of the Internal Revenue Code, any amount paid as a survivor annuity (not a lump sum) after January 1, 2002 on account of the duty-related death of a public safety officer is not subject to federal income tax. In order to qualify for this favorable tax treatment, the benefit must be paid from a qualified 401(a) government plan to the surviving spouse (or a former spouse) of the public safety officer or to a child of such officer; and to the extent such annuity is attributable to such officer's service as a public safety officer.

Committee Activity:

Presentation:

December 4, 2002, Full Committee Meeting

Proposal Approved:

December 4, 2002, Full Committee Meeting

Recommendation to Legislature:

Bring State law into compliance with federal law regarding the taxation of pension benefits to beneficiaries of public safety officers that die in the line of duty. Benefits paid to beneficiaries of public safety officers who die in the line of duty shall be paid in accordance with Title 26 U.S.C. Sec. 101(h) as amended by the Fallen Hero Survivor Benefit Fairness Act of 2001.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Fallen Heros

Issue Summary

The bill is necessary to bring State law into compliance with federal law regarding the taxation of pension benefits to beneficiaries of public safety officers that die in the line of duty.

Summary:

This bill would provide that pension payments to qualifying beneficiaries of public safety officers who died in the line of duty would not be subject to federal income tax.

Pursuant to Section 101(h) of the Internal Revenue Code, any amount paid as a survivor annuity (not a lump sum) after January 1, 2002 on account of the duty-related death of a public safety officer is not subject to income tax. In order to qualify for this favorable tax treatment, the benefit must be paid from a qualified 401(a) government plan to the surviving spouse (or a former spouse) of the public safety officer or to a child of such officer; and to the extent such annuity is attributable to such officer's service as a public safety officer.

The favorable tax treatment does not apply to the death of any public safety officer if:

- The death was caused by the intentional misconduct of the officer or by such officer's intention to bring about such officer's death;
- The officer was voluntarily intoxicated at the time of death;
- The officer was performing such officer's duties in a grossly negligent manner at the time of death; or
- The payment is to an individual whose actions were a substantial contributing factor to the death of the officer.

"Public Safety Officer" is defined as an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, as a firefighter, or as a member of a rescue squad or ambulance crew.

Fiscal Impact (*Administration*):

\$99,369

1 AN ACT Relating to paying survivor benefits in accordance with
2 Title 26 U.S.C. Sec. 101(h) as amended by the Fallen Hero Survivor
3 Benefit Fairness Act of 2001; and adding a new section to chapter 41.04
4 RCW.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.04 RCW
7 to read as follows:

8 Retirement benefits paid under chapter 41.26, 41.40, or 43.43 RCW
9 to beneficiaries of public safety officers who die in the line of duty
10 shall be paid in accordance with Title 26 U.S.C. Sec. 101(h) as amended
11 by the Fallen Hero Survivor Benefit Fairness Act of 2001.

--- END ---

Fish & Wildlife into LEOFF

Background:

The 2002 Legislature passed ESB 6076, broadening the authority of Department of Fish and Wildlife enforcement officers and changed the Department of Fish & Wildlife from a limited authority to a general authority law enforcement agency.

Department of Fish and Wildlife law enforcement officers are members of the Public Employees' Retirement System (PERS), and there are members of all three plans of PERS currently serving as Fish and Wildlife enforcement officers.

New members enrolling in PERS may choose to enter Plan 2 or Plan 3. Both open Plans have a full retirement age of 65, early retirement after either ten (Plan 3) or twenty (Plan 2) years of service with a full actuarial reduction beginning at age 55, or with a reduction of 3 percent per year after thirty years of service.

New members enrolling in LEOFF enter Plan 2. LEOFF Plan 2 members have a full retirement age of 53, and may early retire after twenty years of service at age 50 with a 3 percent per year reduction.

Committee Activity:

Presentation:

November 13, 2002, Full Committee Meeting

Proposal Approved:

December 4, 2002

Recommendation to Legislature:

Department of Fish and Wildlife enforcement officers who are members of PERS 2 or 3 shall be included in LEOFF 2 for purposes of future service. Members with past service in PERS 2 or PERS 3 shall be dual members of PERS and LEOFF 2, and have their benefits calculated according to the Portability Chapter. No past PERS service credit may be transferred to LEOFF Plan 2. Department of Fish and Wildlife enforcement officers who are members of PERS 1 shall remain in PERS 1.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Fish & Wildlife into LEOFF

Issue Summary

Background:

The 2002 Legislature passed ESB 6076, broadening the authority of Department of Fish and Wildlife law enforcement officers and changing the Department of Fish and Wildlife from a limited authority law enforcement agency to a general authority law enforcement agency. ESB 6076 also added language specifying that the Fish and Wildlife enforcement officers would not become members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) as a result of the passage of the act.

Department of Fish and Wildlife law enforcement officers are members of the Public Employees' Retirement System(PERS), and there are members of all three plans of PERS currently serving as Fish and Wildlife enforcement officers.

New members enrolling in PERS may choose to enter PERS plan 2 or plan 3. Members of PERS plan 2 or 3 have a full retirement age of 65, may early retire after either ten (plan 3) or twenty (plan 2) years of service with a full actuarial reduction beginning at age 55, or with a reduction of 3 percent per year of early retirement after thirty years of service.

New members enrolling in LEOFF enter plan 2. LEOFF plan 2 members have a full retirement age of 53, and may early retire after twenty years of service at age 50 with a 3 percent per year reduction.

Department of Fish and Wildlife Law Enforcement Officer Membership by PERS plan, October 2002

PERS Plan	Number of Members
1	58
2	61
3	6
Total	125

Many Department of Fish and Wildlife enforcement officers are members of PERS plan 1. PERS plan 1 members may retire after 30 years of service at any age, at age 55 after 25 years of service, and at age 60 after five years of service.

The eligibility of a group of employees for membership in LEOFF plan 2 as law enforcement officers is generally determined on the basis of three criteria:

- That the employees are full-time, fully authorized law enforcement officers commissioned and employed to enforce the criminal laws in general;

- That their employer is a general authority law enforcement agency which has as its primary function the enforcement of the traffic and criminal laws of the state in general; and
- That there are certain required qualifications of the individuals including the Criminal Justice Training Commission basic law enforcement course.

The portability rules in Chapter 41.54 RCW provide for the retirement benefits of members with service in several systems or plans. Among the most important principles in the portability rules are that years of service in several plans may be combined to determine the eligibility for benefits from each plan, however each benefit is still only available under the terms of that plan. The member's base salary from any one of the systems may also be used for calculating the benefit from the others.

For example, a member has ten years of service in PERS plan 2 and ten years of service in LEOFF plan 2. The member is eligible to receive a full normal retirement benefit from the ten years of LEOFF plan 2 service at age 53, and may choose to receive a benefit from the ten years of PERS plan 2 service at age 53 as well - however the benefit from PERS shall be reduced from age 65, the PERS plan 2 retirement age, to age 53. Alternatively, the member could delay collecting a benefit from PERS until age 65, and at that time receive their benefit unreduced.

Analysis:

ESB 6076 changed the status of Department of Fish and Wildlife enforcement officers with respect to two of the LEOFF plan 2 membership criteria. The 2002 legislation explicitly makes the Fish and Wildlife enforcement officers fully authorized general authority law enforcement officers and makes the Department of Fish and Wildlife a general authority law enforcement agency.

ESB 6076 also specifically provided that Fish and Wildlife enforcement officers would not be included in LEOFF plan 2 through employer definition. Similarly, the Washington State Patrol is excluded from the definition of general authority law enforcement agency for purposes of LEOFF plan 2. The commissioned officers of the Washington State Patrol are included in the Washington State Patrol Retirement System (WSPRS).

Executive Committee Recommendation:

Department of Fish and Wildlife law enforcement officers who are members of PERS plan 2 or plan 3 shall be included in LEOFF plan 2 for purposes of future service. Members with past service in PERS 2 or PERS 3 shall be dual members of PERS and LEOFF plan 2, and have their benefits calculated according to the Portability provisions provided in Chapter 41.54 RCW. No past PERS service credit may be transferred to LEOFF plan 2. Department of Fish and Wildlife law enforcement officers who are members of PERS plan 1 shall remain in PERS plan 1.

1 AN ACT Relating to department of fish and wildlife law enforcement
2 officers' membership in the law enforcement officers' and fire
3 fighters' retirement system plan 2 for periods of future service;
4 amending RCW 41.26.030 and 77.15.075; and adding a new section to
5 chapter 41.40 RCW.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW
8 to read as follows:

9 (1) An employee who was a member of the public employees'
10 retirement system plan 2 or plan 3 on or before January 1, 2003, and on
11 the effective date of this act is employed by the department of fish
12 and wildlife as a law enforcement officer as defined in RCW 41.26.030,
13 shall become a member of the law enforcement officers' and fire
14 fighters' retirement system plan 2. All officers will be dual members
15 as provided in chapter 41.54 RCW, and public employees' retirement
16 system service credit may not be transferred to the law enforcement
17 officers' and fire fighters' retirement system plan 2.

(2) An employee who was a member of the public employees' retirement system plan 1 on or before January 1, 2003, and on or after the effective date of this act is employed by the department of fish and wildlife as a law enforcement officer as defined in RCW 41.26.030, shall remain a member of the public employees' retirement system plan 1.

Sec. 2. RCW 41.26.030 and 2002 c 128 s 3 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1) "Retirement system" means the "Washington law enforcement officers' and fire fighters' retirement system" provided herein.

(2)(a) "Employer" for plan 1 members, means the legislative authority of any city, town, county, or district or the elected officials of any municipal corporation that employs any law enforcement officer and/or fire fighter, any authorized association of such municipalities, and, except for the purposes of RCW 41.26.150, any labor guild, association, or organization, which represents the fire fighters or law enforcement officers of at least seven cities of over 20,000 population and the membership of each local lodge or division of which is composed of at least sixty percent law enforcement officers or fire fighters as defined in this chapter.

(b) "Employer" for plan 2 members, means the following entities to the extent that the entity employs any law enforcement officer and/or fire fighter:

(i) The legislative authority of any city, town, county, or district;

(ii) The elected officials of any municipal corporation;

(iii) The governing body of any other general authority law enforcement agency; or

(iv) A four-year institution of higher education having a fully operational fire department as of January 1, 1996.

(3) "Law enforcement officer" beginning January 1, 1994, means any person who is commissioned and employed by an employer on a full time, fully compensated basis to enforce the criminal laws of the state of Washington generally, with the following qualifications:

1 (a) No person who is serving in a position that is basically
2 clerical or secretarial in nature, and who is not commissioned shall be
3 considered a law enforcement officer;

4 (b) Only those deputy sheriffs, including those serving under a
5 different title pursuant to county charter, who have successfully
6 completed a civil service examination for deputy sheriff or the
7 equivalent position, where a different title is used, and those persons
8 serving in unclassified positions authorized by RCW 41.14.070 except a
9 private secretary will be considered law enforcement officers;

10 (c) Only such full time commissioned law enforcement personnel as
11 have been appointed to offices, positions, or ranks in the police
12 department which have been specifically created or otherwise expressly
13 provided for and designated by city charter provision or by ordinance
14 enacted by the legislative body of the city shall be considered city
15 police officers;

16 (d) The term "law enforcement officer" also includes the executive
17 secretary of a labor guild, association or organization (which is an
18 employer under RCW 41.26.030(2)) if that individual has five years
19 previous membership in the retirement system established in chapter
20 41.20 RCW. The provisions of this subsection (3)(d) shall not apply to
21 plan 2 members; and

22 (e) The term "law enforcement officer" also includes a person
23 employed on or after January 1, 1993, as a public safety officer or
24 director of public safety, so long as the job duties substantially
25 involve only either police or fire duties, or both, and no other duties
26 in a city or town with a population of less than ten thousand. The
27 provisions of this subsection (3)(e) shall not apply to any public
28 safety officer or director of public safety who is receiving a
29 retirement allowance under this chapter as of May 12, 1993.

30 (4) "Fire fighter" means:

31 (a) Any person who is serving on a full time, fully compensated
32 basis as a member of a fire department of an employer and who is
33 serving in a position which requires passing a civil service
34 examination for fire fighter, and who is actively employed as such;

35 (b) Anyone who is actively employed as a full time fire fighter
36 where the fire department does not have a civil service examination;

37 (c) Supervisory fire fighter personnel;

1 (d) Any full time executive secretary of an association of fire
2 protection districts authorized under RCW 52.12.031. The provisions of
3 this subsection (4)(d) shall not apply to plan 2 members;

4 (e) The executive secretary of a labor guild, association or
5 organization (which is an employer under RCW 41.26.030(2) as now or
6 hereafter amended), if such individual has five years previous
7 membership in a retirement system established in chapter 41.16 or 41.18
8 RCW. The provisions of this subsection (4)(e) shall not apply to plan
9 2 members;

10 (f) Any person who is serving on a full time, fully compensated
11 basis for an employer, as a fire dispatcher, in a department in which,
12 on March 1, 1970, a dispatcher was required to have passed a civil
13 service examination for fire fighter; and

14 (g) Any person who on March 1, 1970, was employed on a full time,
15 fully compensated basis by an employer, and who on May 21, 1971, was
16 making retirement contributions under the provisions of chapter 41.16
17 or 41.18 RCW.

18 (5) "Department" means the department of retirement systems created
19 in chapter 41.50 RCW.

20 (6) "Surviving spouse" means the surviving widow or widower of a
21 member. "Surviving spouse" shall not include the divorced spouse of a
22 member except as provided in RCW 41.26.162.

23 (7)(a) "Child" or "children" means an unmarried person who is under
24 the age of eighteen or mentally or physically handicapped as determined
25 by the department, except a handicapped person in the full time care of
26 a state institution, who is:

27 (i) A natural born child;

28 (ii) A stepchild where that relationship was in existence prior to
29 the date benefits are payable under this chapter;

30 (iii) A posthumous child;

31 (iv) A child legally adopted or made a legal ward of a member prior
32 to the date benefits are payable under this chapter; or

33 (v) An illegitimate child legitimized prior to the date any
34 benefits are payable under this chapter.

35 (b) A person shall also be deemed to be a child up to and including
36 the age of twenty years and eleven months while attending any high
37 school, college, or vocational or other educational institution
38 accredited, licensed, or approved by the state, in which it is located,

1 including the summer vacation months and all other normal and regular
2 vacation periods at the particular educational institution after which
3 the child returns to school.

4 (8) "Member" means any fire fighter, law enforcement officer, or
5 other person as would apply under subsections (3) or (4) of this
6 section whose membership is transferred to the Washington law
7 enforcement officers' and fire fighters' retirement system on or after
8 March 1, 1970, and every law enforcement officer and fire fighter who
9 is employed in that capacity on or after such date.

10 (9) "Retirement fund" means the "Washington law enforcement
11 officers' and fire fighters' retirement system fund" as provided for
12 herein.

13 (10) "Employee" means any law enforcement officer or fire fighter
14 as defined in subsections (3) and (4) of this section.

15 (11)(a) "Beneficiary" for plan 1 members, means any person in
16 receipt of a retirement allowance, disability allowance, death benefit,
17 or any other benefit described herein.

18 (b) "Beneficiary" for plan 2 members, means any person in receipt
19 of a retirement allowance or other benefit provided by this chapter
20 resulting from service rendered to an employer by another person.

21 (12)(a) "Final average salary" for plan 1 members, means (i) for a
22 member holding the same position or rank for a minimum of twelve months
23 preceding the date of retirement, the basic salary attached to such
24 same position or rank at time of retirement; (ii) for any other member,
25 including a civil service member who has not served a minimum of twelve
26 months in the same position or rank preceding the date of retirement,
27 the average of the greatest basic salaries payable to such member
28 during any consecutive twenty-four month period within such member's
29 last ten years of service for which service credit is allowed, computed
30 by dividing the total basic salaries payable to such member during the
31 selected twenty-four month period by twenty-four; (iii) in the case of
32 disability of any member, the basic salary payable to such member at
33 the time of disability retirement; (iv) in the case of a member who
34 hereafter vests pursuant to RCW 41.26.090, the basic salary payable to
35 such member at the time of vesting.

36 (b) "Final average salary" for plan 2 members, means the monthly
37 average of the member's basic salary for the highest consecutive sixty

1 service credit months of service prior to such member's retirement,
2 termination, or death. Periods constituting authorized unpaid leaves
3 of absence may not be used in the calculation of final average salary.

4 (13)(a) "Basic salary" for plan 1 members, means the basic monthly
5 rate of salary or wages, including longevity pay but not including
6 overtime earnings or special salary or wages, upon which pension or
7 retirement benefits will be computed and upon which employer
8 contributions and salary deductions will be based.

9 (b) "Basic salary" for plan 2 members, means salaries or wages
10 earned by a member during a payroll period for personal services,
11 including overtime payments, and shall include wages and salaries
12 deferred under provisions established pursuant to sections 403(b),
13 414(h), and 457 of the United States Internal Revenue Code, but shall
14 exclude lump sum payments for deferred annual sick leave, unused
15 accumulated vacation, unused accumulated annual leave, or any form of
16 severance pay. In any year in which a member serves in the legislature
17 the member shall have the option of having such member's basic salary
18 be the greater of:

19 (i) The basic salary the member would have received had such member
20 not served in the legislature; or

21 (ii) Such member's actual basic salary received for nonlegislative
22 public employment and legislative service combined. Any additional
23 contributions to the retirement system required because basic salary
24 under (b)(i) of this subsection is greater than basic salary under
25 (b)(ii) of this subsection shall be paid by the member for both member
26 and employer contributions.

27 (14)(a) "Service" for plan 1 members, means all periods of
28 employment for an employer as a fire fighter or law enforcement
29 officer, for which compensation is paid, together with periods of
30 suspension not exceeding thirty days in duration. For the purposes of
31 this chapter service shall also include service in the armed forces of
32 the United States as provided in RCW 41.26.190. Credit shall be
33 allowed for all service credit months of service rendered by a member
34 from and after the member's initial commencement of employment as a
35 fire fighter or law enforcement officer, during which the member worked
36 for seventy or more hours, or was on disability leave or disability
37 retirement. Only service credit months of service shall be counted in

1 the computation of any retirement allowance or other benefit provided
2 for in this chapter.

3 (i) For members retiring after May 21, 1971 who were employed under
4 the coverage of a prior pension act before March 1, 1970, "service"
5 shall also include (A) such military service not exceeding five years
6 as was creditable to the member as of March 1, 1970, under the member's
7 particular prior pension act, and (B) such other periods of service as
8 were then creditable to a particular member under the provisions of RCW
9 41.18.165, 41.20.160 or 41.20.170. However, in no event shall credit
10 be allowed for any service rendered prior to March 1, 1970, where the
11 member at the time of rendition of such service was employed in a
12 position covered by a prior pension act, unless such service, at the
13 time credit is claimed therefor, is also creditable under the
14 provisions of such prior act.

15 (ii) A member who is employed by two employers at the same time
16 shall only be credited with service to one such employer for any month
17 during which the member rendered such dual service.

18 (b) "Service" for plan 2 members, means periods of employment by a
19 member for one or more employers for which basic salary is earned for
20 ninety or more hours per calendar month which shall constitute a
21 service credit month. Periods of employment by a member for one or
22 more employers for which basic salary is earned for at least seventy
23 hours but less than ninety hours per calendar month shall constitute
24 one-half service credit month. Periods of employment by a member for
25 one or more employers for which basic salary is earned for less than
26 seventy hours shall constitute a one-quarter service credit month.

27 Members of the retirement system who are elected or appointed to a
28 state elective position may elect to continue to be members of this
29 retirement system.

30 Service credit years of service shall be determined by dividing the
31 total number of service credit months of service by twelve. Any
32 fraction of a service credit year of service as so determined shall be
33 taken into account in the computation of such retirement allowance or
34 benefits.

35 If a member receives basic salary from two or more employers during
36 any calendar month, the individual shall receive one service credit
37 month's service credit during any calendar month in which multiple
38 service for ninety or more hours is rendered; or one-half service

1 credit month's service credit during any calendar month in which
2 multiple service for at least seventy hours but less than ninety hours
3 is rendered; or one-quarter service credit month during any calendar
4 month in which multiple service for less than seventy hours is
5 rendered.

6 (15) "Accumulated contributions" means the employee's contributions
7 made by a member, including any amount paid under RCW 41.50.165(2),
8 plus accrued interest credited thereon.

9 (16) "Actuarial reserve" means a method of financing a pension or
10 retirement plan wherein reserves are accumulated as the liabilities for
11 benefit payments are incurred in order that sufficient funds will be
12 available on the date of retirement of each member to pay the member's
13 future benefits during the period of retirement.

14 (17) "Actuarial valuation" means a mathematical determination of
15 the financial condition of a retirement plan. It includes the
16 computation of the present monetary value of benefits payable to
17 present members, and the present monetary value of future employer and
18 employee contributions, giving effect to mortality among active and
19 retired members and also to the rates of disability, retirement,
20 withdrawal from service, salary and interest earned on investments.

21 (18) "Disability board" for plan 1 members means either the county
22 disability board or the city disability board established in RCW
23 41.26.110.

24 (19) "Disability leave" means the period of six months or any
25 portion thereof during which a member is on leave at an allowance equal
26 to the member's full salary prior to the commencement of disability
27 retirement. The definition contained in this subsection shall apply
28 only to plan 1 members.

29 (20) "Disability retirement" for plan 1 members, means the period
30 following termination of a member's disability leave, during which the
31 member is in receipt of a disability retirement allowance.

32 (21) "Position" means the employment held at any particular time,
33 which may or may not be the same as civil service rank.

34 (22) "Medical services" for plan 1 members, shall include the
35 following as minimum services to be provided. Reasonable charges for
36 these services shall be paid in accordance with RCW 41.26.150.

37 (a) Hospital expenses: These are the charges made by a hospital,
38 in its own behalf, for

1 (i) Board and room not to exceed semiprivate room rate unless
2 private room is required by the attending physician due to the
3 condition of the patient.

4 (ii) Necessary hospital services, other than board and room,
5 furnished by the hospital.

6 (b) Other medical expenses: The following charges are considered
7 "other medical expenses", provided that they have not been considered
8 as "hospital expenses".

9 (i) The fees of the following:

10 (A) A physician or surgeon licensed under the provisions of chapter
11 18.71 RCW;

12 (B) An osteopathic physician and surgeon licensed under the
13 provisions of chapter 18.57 RCW;

14 (C) A chiropractor licensed under the provisions of chapter 18.25
15 RCW.

16 (ii) The charges of a registered graduate nurse other than a nurse
17 who ordinarily resides in the member's home, or is a member of the
18 family of either the member or the member's spouse.

19 (iii) The charges for the following medical services and supplies:

20 (A) Drugs and medicines upon a physician's prescription;

21 (B) Diagnostic x-ray and laboratory examinations;

22 (C) X-ray, radium, and radioactive isotopes therapy;

23 (D) Anesthesia and oxygen;

24 (E) Rental of iron lung and other durable medical and surgical
25 equipment;

26 (F) Artificial limbs and eyes, and casts, splints, and trusses;

27 (G) Professional ambulance service when used to transport the
28 member to or from a hospital when injured by an accident or stricken by
29 a disease;

30 (H) Dental charges incurred by a member who sustains an accidental
31 injury to his or her teeth and who commences treatment by a legally
32 licensed dentist within ninety days after the accident;

33 (I) Nursing home confinement or hospital extended care facility;

34 (J) Physical therapy by a registered physical therapist;

35 (K) Blood transfusions, including the cost of blood and blood
36 plasma not replaced by voluntary donors;

37 (L) An optometrist licensed under the provisions of chapter 18.53
38 RCW.

1 (23) "Regular interest" means such rate as the director may
2 determine.

3 (24) "Retiree" for persons who establish membership in the
4 retirement system on or after October 1, 1977, means any member in
5 receipt of a retirement allowance or other benefit provided by this
6 chapter resulting from service rendered to an employer by such member.

7 (25) "Director" means the director of the department.

8 (26) "State actuary" or "actuary" means the person appointed
9 pursuant to RCW 44.44.010(2).

10 (27) "State elective position" means any position held by any
11 person elected or appointed to statewide office or elected or appointed
12 as a member of the legislature.

13 (28) "Plan 1" means the law enforcement officers' and fire
14 fighters' retirement system, plan 1 providing the benefits and funding
15 provisions covering persons who first became members of the system
16 prior to October 1, 1977.

17 (29) "Plan 2" means the law enforcement officers' and fire
18 fighters' retirement system, plan 2 providing the benefits and funding
19 provisions covering persons who first became members of the system on
20 and after October 1, 1977.

21 (30) "Service credit year" means an accumulation of months of
22 service credit which is equal to one when divided by twelve.

23 (31) "Service credit month" means a full service credit month or an
24 accumulation of partial service credit months that are equal to one.

25 (32) "General authority law enforcement agency" means any agency,
26 department, or division of a municipal corporation, political
27 subdivision, or other unit of local government of this state, and any
28 agency, department, or division of state government, having as its
29 primary function the detection and apprehension of persons committing
30 infractions or violating the traffic or criminal laws in general, but
31 not including the Washington state patrol (~~or the department of fish
32 and wildlife~~). Such an agency, department, or division is
33 distinguished from a limited authority law enforcement agency having as
34 one of its functions the apprehension or detection of persons
35 committing infractions or violating the traffic or criminal laws
36 relating to limited subject areas, including but not limited to, the
37 state departments of natural resources and social and health services,
38 the state gambling commission, the state lottery commission, the state

1 parks and recreation commission, the state utilities and transportation
2 commission, the state liquor control board, and the state department of
3 corrections.

4 **Sec. 3.** RCW 77.15.075 and 2002 c 128 s 4 are each amended to read
5 as follows:

6 (1) Fish and wildlife officers and ex officio fish and wildlife
7 officers shall enforce this title, rules of the department, and other
8 statutes as prescribed by the legislature. Fish and wildlife officers
9 who are not ex officio officers shall have and exercise, throughout the
10 state, such police powers and duties as are vested in sheriffs and
11 peace officers generally. An applicant for a fish and wildlife officer
12 position must be a citizen of the United States of America who can read
13 and write the English language. All fish and wildlife officers
14 employed after June 13, 2002, must successfully complete the basic law
15 enforcement academy course, known as the basic course, sponsored by the
16 criminal justice training commission, or the basic law enforcement
17 equivalency certification, known as the equivalency course, provided by
18 the criminal justice training commission. All officers employed on
19 June 13, 2002, must have successfully completed the basic course, the
20 equivalency course, or the supplemental course in criminal law
21 enforcement, known as the supplemental course, offered under chapter
22 155, Laws of 1985. Any officer who has not successfully completed the
23 basic course, the equivalency course, or the supplemental course must
24 complete the basic course or the equivalency course within fifteen
25 months of June 13, 2002.

26 (2) Fish and wildlife officers are peace officers. (~~However,~~
27 ~~nothing in this section or RCW 10.93.020 confers membership to such~~
28 ~~officers in the Washington law enforcement officers' and fire fighters'~~
29 ~~retirement system under chapter 41.26 RCW.))~~

30 (3) Any liability or claim of liability under chapter 4.92 RCW that
31 arises out of the exercise or alleged exercise of authority by a fish
32 and wildlife officer rests with the department unless the fish and
33 wildlife officer acts under the direction and control of another agency
34 or unless the liability is otherwise assumed under an agreement between
35 the department and another agency.

36 (4) Fish and wildlife officers may serve and execute warrants and
37 processes issued by the courts.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

Office of the State Actuary

035

11/26/02

Z-0206.1

Fish & Wildlife into LEOFF

SUMMARY:

This bill impacts the Law Enforcement Officers and Fire Fighters' Retirement System Plan 2 (LEOFF 2) by:

Including Department of Fish and Wildlife law enforcement officers in the membership of the LEOFF 2.

Current members in Public Employees' Retirement System Plan 2/3 (PERS 2/3) will have dual membership in PERS 2/3 and LEOFF 2. Members in PERS 1 will remain in PERS 1.

Effective Date: 90 days after session.

BACKGROUND DISCUSSION:

Department of Fish and Wildlife enforcement officers first employed before October 1, 1977 are members of PERS 1. These members are eligible for retirement with 30 years of service at any age; with 25 years of service at age 55 and at age 60 with five years of service.

Enforcement officers first employed after September 30, 1977 are members of PERS 2/3. These members are eligible for normal retirement at age 65 with 5/10 years of service. PERS 2/3 members may retire early at age 55 with 20/10 years of service. The early retirement benefit is actuarially reduced from age 65. For those with 30 years of service, the early retirement benefit is reduced by 3% for each year prior to age 65 the benefit commences.

LEOFF 2 members are eligible for retirement at age 53 with five years of service. LEOFF 2 members may retire early at age 50 with 20 years of service. The early retirement benefit is reduced by 3% for each year prior to age 53 the benefit commences.

MEMBERS IMPACTED:

We estimate that 72 PERS 2/3 members (6 are in PERS 3) would be affected by this bill.

The bill does not provide an option to transfer past service. A one-time payment by the employer to keep the rates in LEOFF unaffected is also not provided in the bill. As a result, the employer, state, and the affected employees will have different future contributions as shown on the following page.

The average age, service and salary of the 72 members affected by this bill are shown below:

Member Age	40
Years of Service	11
Yearly Salary	\$ 52,155

FISCAL IMPACT:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the LEOFF 2 System and the required actuarial contribution rate as shown below:

Law Enforcement Officers and Fire Fighters Retirement System Plan 2: (Dollars in Millions)

	Current	Increase	Total
Actuarial Present Value of Projected Benefits The Value of the Total Commitment to all Current Members	\$3,652	\$ 8	\$ 3,660
Unfunded Actuarial Accrued Liability The Portion of the Plan 1 Liability that is Amortized until 2024	N/A	N/A	N/A
Unfunded Liability (PBO) The Value of the Total Commitment to all Current Members Attributable to Past Service	\$ (907)	\$ 0	\$ (907)
Required Contribution Rate	10.10%	0.04%	10.14%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Effective September 1, 2003

Increase in Contribution Rates:

Employee	0.02%
Employer	0.01%
State	0.01%

Costs (in Millions):

2003-2005

State:

General Fund	\$0.2
Non-General Fund	

Total State	\$0.2
Local Government	\$0.2

2005-2007**State:**

General Fund \$0.2

Non-General Fund

Total State \$0.2

Local Government \$0.2

2003-2028**State:**

General Fund \$5.7

Non-General Fund

Total State \$5.7

Local Government \$5.7

Effective with the employee's transfer, the employer's contribution rate will increase from the rate it pays for PERS 2 members to rate for LEOFF 2 employers.

**Effect of Service Credit Transfer on Contribution Rates
for those Members who Transfer**

	PERS 2	LEOFF 2**	Change
Employer*	2.05%*	3.04%	0.99%*
State General Fund	---	2.03%	2.03%
Total*	2.05%*	5.07%	3.66%*

* The funding for the PERS 1 UAAL is scheduled to be completed by 6/30/2024. The PERS rate will drop to the Normal Cost rate at that time. The Normal Cost Rate is currently 1.41% and the UAAL rate is 0.64%.

** The LEOFF rate includes the increase due to this bill of .01% in both the employer and state rates.

	Increase in Employer Contributions	Increase in State (Non-Employer) Contributions	Total
2003-2005	\$ 83,000	\$ 170,000	\$ 253,000
2005-2007	\$ 95,000	\$ 194,000	\$ 289,000
2003-2028	\$ 2,650,000	\$ 4,612,000	\$ 7,262,000

This fiscal note does not consider the impact of Initiative 790.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal bill are based on our understanding of the bill as well as generally accepted actuarial practices including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.

Three members hired after the valuation date were not included in this study.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2003 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces. The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL. The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Governance

Background:

Pension governance is a term to describe the organizational structure by which public pensions are ordered. In many states, public pensions are governed by retirement boards or boards of trustees in which plan members have direct representation. That is different from the structure used in Washington State where pension governance functions are performed by numerous agencies and boards, as well as legislative committees.

Committee Activity:

Presentation:

June 19, 2002, Full Committee Meeting

July 10, 2002, Full Committee Meeting

November 13, 2002, Full Committee Meeting

Proposal Approved:

December 4, 2002

Recommendation to Legislature:

Establish a new Select Committee on Pension Policy, replacing the Joint Committee on Pension Policy. The Select Committee will assume the duties of the JCPP. Membership will consist of 20 members: 4 Representatives, 4 Senators, 4 active employee representatives, 2 retiree representatives, 4 employer representatives, and the Directors of DRS and OFM.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Governance

Proposed Legislation

	SHB 3010	S4910.1 Striking Amendment	Z-0272.1
Creates	Select Committee on Pension Policy (SCPP)		
Repeals	Joint Committee on Pension Policy		
Staff	Office of the State Actuary (OSA)		
Members	<u>16 Members</u> <ul style="list-style-type: none"> - 4 Senate members¹ - 4 House members² - 4 Active representatives - 2 Retiree representatives - 2 Employer representatives 	<u>20 Members</u> <ul style="list-style-type: none"> - 4 Senate members³ - 4 House members⁴ - 4 Active representatives - 2 Retiree representatives - 4 Employer representatives - Directors of DRS & OFM 	
Duties	<ul style="list-style-type: none"> - Study pension issues and develop pension policies - Study financial conditions of state pension systems and develop funding policies - Make recommendations to the legislature 		
Other	<ul style="list-style-type: none"> - OSA under the Pension Funding Council (PFC). - PFC may appoint or remove the State Actuary 	<ul style="list-style-type: none"> - OSA under the SCPP - SCPP may appoint or remove the State Actuary 	

¹ Must be from the Ways and Means Committee

² Must be from the Appropriations Committee

³ Three must be from the Ways and Means Committee

⁴ Three must be from the Appropriations Committee

1 AN ACT Relating to creating the select committee on pension policy;
2 amending RCW 41.50.110, 44.44.040, 41.40.037, 41.45.020, 41.45.090,
3 44.04.260, and 44.44.030; reenacting and amending RCW 41.32.570; adding
4 new sections to chapter 41.04 RCW; decodifying RCW 41.54.061; and
5 repealing RCW 44.44.015, 44.44.050, and 44.44.060.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.04 RCW
8 to read as follows:

9 (1) The select committee on pension policy is created. The select
10 committee consists of:

11 (a) Four members of the senate appointed by the president of the
12 senate, two of whom are members of the majority party and two of whom
13 are members of the minority party. At least three of the appointees
14 shall be members of the senate ways and means committee;

15 (b) Four members of the house of representatives appointed by the
16 speaker, two of whom are members of the majority party and two of whom
17 are members of the minority party. At least three of the appointees
18 shall be members of the house of representatives appropriations
19 committee;

1 (c) Four active members or representatives from organizations of
2 active members of the state retirement systems appointed by the
3 governor for staggered three-year terms, with no more than two
4 appointees representing any one employee retirement system;

5 (d) Two retired members or representatives of retired members'
6 organizations of the state retirement systems appointed by the governor
7 for staggered three-year terms, with no two members from the same
8 system;

9 (e) Four employer representatives of members of the state
10 retirement systems appointed by the governor for staggered three-year
11 terms; and

12 (f) The directors of the department of retirement systems and
13 office of financial management.

14 (2) (a) The term of office of each member of the house of
15 representatives or senate serving on the committee runs from the close
16 of the session in which he or she is appointed until the close of the
17 next regular session held in an odd-numbered year. If a successor is
18 not appointed during a session, the member's term continues until the
19 member is reappointed or a successor is appointed. The term of office
20 for a committee member who is a member of the house of representatives
21 or the senate who does not continue as a member of the senate or house
22 of representatives ceases upon the convening of the next session of the
23 legislature during the odd-numbered year following the member's
24 appointment, or upon the member's resignation, whichever is earlier.
25 All vacancies of positions held by members of the legislature must be
26 filled from the same political party and from the same house as the
27 member whose seat was vacated.

28 (b) Following the terms of members and representatives appointed
29 under subsection (1) (d) of this section, the retiree positions shall be
30 rotated to ensure that each system has an opportunity to have a retiree
31 representative on the committee.

32 (3) The committee shall elect a chairperson and a vice-chairperson.
33 The chairperson shall be a member of the senate in even-numbered years
34 and a member of the house of representatives in odd-numbered years.

35 (4) The committee shall establish an executive committee of four
36 members, including the chairperson and the vice-chairperson.

37 (5) Nonlegislative members of the select committee serve without

1 compensation, but shall be reimbursed for travel expenses under RCW
2 43.03.050 and 43.03.060.

3 (6) The office of state actuary under chapter 44.44 RCW shall
4 provide staff and technical support to the committee.

5 **Sec. 2.** RCW 41.50.110 and 1998 c 341 s 508 are each amended to
6 read as follows:

7 (1) Except as provided by RCW 41.50.255 and subsection (6) of this
8 section, all expenses of the administration of the department (~~and~~),
9 the expenses of administration of the retirement systems, and the
10 expenses of the administration of the office of the state actuary
11 created in chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.35,
12 (~~and~~) 43.43, and 44.44 RCW shall be paid from the department of
13 retirement systems expense fund.

14 (2) In order to reimburse the department of retirement systems
15 expense fund on an equitable basis the department shall ascertain and
16 report to each employer, as defined in RCW 41.26.030, 41.32.010,
17 41.35.010, or 41.40.010, the sum necessary to defray its proportional
18 share of the entire expense of the administration of the retirement
19 system that the employer participates in during the ensuing biennium or
20 fiscal year whichever may be required. Such sum is to be computed in
21 an amount directly proportional to the estimated entire expense of the
22 administration as the ratio of monthly salaries of the employer's
23 members bears to the total salaries of all members in the entire
24 system. It shall then be the duty of all such employers to include in
25 their budgets or otherwise provide the amounts so required.

26 (3) The department shall compute and bill each employer, as defined
27 in RCW 41.26.030, 41.32.010, 41.35.010, or 41.40.010, at the end of
28 each month for the amount due for that month to the department of
29 retirement systems expense fund and the same shall be paid as are its
30 other obligations. Such computation as to each employer shall be made
31 on a percentage rate of salary established by the department. However,
32 the department may at its discretion establish a system of billing
33 based upon calendar year quarters in which event the said billing shall
34 be at the end of each such quarter.

35 (4) The director may adjust the expense fund contribution rate for
36 each system at any time when necessary to reflect unanticipated costs
37 or savings in administering the department.

(5) An employer who fails to submit timely and accurate reports to the department may be assessed an additional fee related to the increased costs incurred by the department in processing the deficient reports. Fees paid under this subsection shall be deposited in the retirement system expense fund.

(a) Every six months the department shall determine the amount of an employer's fee by reviewing the timeliness and accuracy of the reports submitted by the employer in the preceding six months. If those reports were not both timely and accurate the department may prospectively assess an additional fee under this subsection.

(b) An additional fee assessed by the department under this subsection shall not exceed fifty percent of the standard fee.

(c) The department shall adopt rules implementing this section.

(6) Expenses other than those under RCW 41.34.060 ~~((+2))~~ (3) shall be paid pursuant to subsection (1) of this section.

Sec. 3. RCW 44.44.040 and 1987 c 25 s 3 are each amended to read as follows:

The office of the state actuary shall have the following powers and duties:

(1) Perform all actuarial services for the department of retirement systems, including all studies required by law. ~~((Reimbursement for such services shall be made to the state actuary pursuant to the provisions of RCW 39.34.130 as now or hereafter amended.))~~

(2) Advise the legislature and the governor regarding pension benefit provisions, and funding policies and investment policies of the state investment board.

(3) Consult with the legislature and the governor concerning determination of actuarial assumptions used by the department of retirement systems.

(4) Prepare a report, to be known as the actuarial fiscal note, on each pension bill introduced in the legislature which briefly explains the financial impact of the bill. The actuarial fiscal note shall include: (a) The statutorily required contribution for the biennium and the following twenty-five years; (b) the biennial cost of the increased benefits if these exceed the required contribution; and (c) any change in the present value of the unfunded accrued benefits. An actuarial fiscal note shall also be prepared for all amendments which

1 are offered in committee or on the floor of the house of
2 representatives or the senate to any pension bill. However, a majority
3 of the members present may suspend the requirement for an actuarial
4 fiscal note for amendments offered on the floor of the house of
5 representatives or the senate.

6 (5) Provide such actuarial services to the legislature as may be
7 requested from time to time.

8 (6) Provide staff and assistance to the committee established under
9 (~~(RCW 46.44.050)~~) section 1 of this act.

10 NEW SECTION. **Sec. 4.** A new section is added to chapter 41.04 RCW
11 to read as follows:

12 The select committee on pension policy has the following powers and
13 duties:

14 (1) Study pension issues, develop pension policies for public
15 employees in state retirement systems, and make recommendations to the
16 legislature;

17 (2) Study the financial condition of the state pension systems,
18 develop funding policies, and make recommendations to the legislature;
19 and

20 (3) Appoint or remove the state actuary by a two-thirds vote of the
21 select committee.

22 **Sec. 5.** RCW 41.32.570 and 2001 2nd sp.s. c 10 s 3 and 2001 c 317
23 s 1 are each reenacted and amended to read as follows:

24 (1)(a) If a retiree enters employment with an employer sooner than
25 one calendar month after his or her accrual date, the retiree's monthly
26 retirement allowance will be reduced by five and one-half percent for
27 every seven hours worked during that month. This reduction will be
28 applied each month until the retiree remains absent from employment
29 with an employer for one full calendar month.

30 (b) The benefit reduction provided in (a) of this subsection will
31 accrue for a maximum of one hundred forty hours per month. Any monthly
32 benefit reduction over one hundred percent will be applied to the
33 benefit the retiree is eligible to receive in subsequent months.

34 (2) Any retired teacher or retired administrator who enters service
35 in any public educational institution in Washington state and who has
36 satisfied the break in employment requirement of subsection (1) of this

1 section shall cease to receive pension payments while engaged in such
2 service, after the retiree has rendered service for more than one
3 thousand five hundred hours in a school year. When a retired teacher
4 or administrator renders service beyond eight hundred sixty-seven
5 hours, the department shall collect from the employer the applicable
6 employer retirement contributions for the entire duration of the
7 member's employment during that fiscal year.

8 (3) The department shall collect and provide the state actuary with
9 information relevant to the use of this section for the ((joint))
10 select committee on pension policy.

11 (4) The legislature reserves the right to amend or repeal this
12 section in the future and no member or beneficiary has a contractual
13 right to be employed for more than five hundred twenty-five hours per
14 year without a reduction of his or her pension.

15 **Sec. 6.** RCW 41.40.037 and 2001 2nd sp.s. c 10 s 4 are each amended
16 to read as follows:

17 (1)(a) If a retiree enters employment with an employer sooner than
18 one calendar month after his or her accrual date, the retiree's monthly
19 retirement allowance will be reduced by five and one-half percent for
20 every eight hours worked during that month. This reduction will be
21 applied each month until the retiree remains absent from employment
22 with an employer for one full calendar month.

23 (b) The benefit reduction provided in (a) of this subsection will
24 accrue for a maximum of one hundred sixty hours per month. Any benefit
25 reduction over one hundred percent will be applied to the benefit the
26 retiree is eligible to receive in subsequent months.

27 (2)(a) A retiree from plan 1 who has satisfied the break in
28 employment requirement of subsection (1) of this section and who enters
29 employment with an employer may continue to receive pension payments
30 while engaged in such service for up to one thousand five hundred hours
31 of service in a calendar year without a reduction of pension. When a
32 plan 1 member renders service beyond eight hundred sixty-seven hours,
33 the department shall collect from the employer the applicable employer
34 retirement contributions for the entire duration of the member's
35 employment during that calendar year.

36 (b) A retiree from plan 2 or plan 3 who has satisfied the break in
37 employment requirement of subsection (1) of this section may work up to

1 eight hundred sixty-seven hours in a calendar year in an eligible
2 position, as defined in RCW 41.32.010, 41.35.010, or 41.40.010, or as
3 a fire fighter or law enforcement officer, as defined in RCW 41.26.030,
4 without suspension of his or her benefit.

5 (3) If the retiree opts to reestablish membership under RCW
6 41.40.023(12), he or she terminates his or her retirement status and
7 becomes a member. Retirement benefits shall not accrue during the
8 period of membership and the individual shall make contributions and
9 receive membership credit. Such a member shall have the right to again
10 retire if eligible in accordance with RCW 41.40.180. However, if the
11 right to retire is exercised to become effective before the member has
12 rendered two uninterrupted years of service, the retirement formula and
13 survivor options the member had at the time of the member's previous
14 retirement shall be reinstated.

15 (4) The department shall collect and provide the state actuary with
16 information relevant to the use of this section for the ((joint))
17 select committee on pension policy.

18 (5) The legislature reserves the right to amend or repeal this
19 section in the future and no member or beneficiary has a contractual
20 right to be employed for more than five months in a calendar year
21 without a reduction of his or her pension.

22 **Sec. 7.** RCW 41.45.020 and 2002 c 26 s 4 are each amended to read
23 as follows:

24 As used in this chapter, the following terms have the meanings
25 indicated unless the context clearly requires otherwise.

26 (1) "Council" means the pension funding council created in RCW
27 41.45.100.

28 (2) "Department" means the department of retirement systems.

29 (3) "Law enforcement officers' and fire fighters' retirement system
30 plan 1" and "law enforcement officers' and fire fighters' retirement
31 system plan 2" means the benefits and funding provisions under chapter
32 41.26 RCW.

33 (4) "Public employees' retirement system plan 1," "public
34 employees' retirement system plan 2," and "public employees' retirement
35 system plan 3" mean the benefits and funding provisions under chapter
36 41.40 RCW.

1 (5) "Teachers' retirement system plan 1," "teachers' retirement
2 system plan 2," and "teachers' retirement system plan 3" mean the
3 benefits and funding provisions under chapter 41.32 RCW.

4 (6) "School employees' retirement system plan 2" and "school
5 employees' retirement system plan 3" mean the benefits and funding
6 provisions under chapter 41.35 RCW.

7 (7) "Washington state patrol retirement system" means the
8 retirement benefits provided under chapter 43.43 RCW.

9 (8) "Unfunded liability" means the unfunded actuarial accrued
10 liability of a retirement system.

11 (9) "Actuary" or "state actuary" means the state actuary employed
12 under chapter 44.44 RCW.

13 (10) "State retirement systems" means the retirement systems listed
14 in RCW 41.50.030.

15 (11) "Classified employee" means a member of the Washington school
16 employees' retirement system plan 2 or plan 3 as defined in RCW
17 41.35.010.

18 (12) "Teacher" means a member of the teachers' retirement system as
19 defined in RCW 41.32.010(15).

20 (13) "Select committee" means the select committee on pension
21 policy created in section 1 of this act.

22 **Sec. 8.** RCW 41.45.090 and 1998 c 283 s 7 are each amended to read
23 as follows:

24 The department shall collect and keep in convenient form such data
25 as shall be necessary for an actuarial valuation of the assets and
26 liabilities of the state retirement systems, and for making an
27 actuarial investigation into the mortality, service, compensation, and
28 other experience of the members and beneficiaries of those systems.
29 The department and state actuary shall enter into a memorandum of
30 understanding regarding the specific data the department will collect,
31 when it will be collected, and how it will be maintained. The
32 department shall notify the state actuary of any changes it makes, or
33 intends to make, in the collection and maintenance of such data.

34 At least once in each six-year period, the state actuary shall
35 conduct an actuarial experience study of the mortality, service,
36 compensation and other experience of the members and beneficiaries of
37 each state retirement system, and into the financial condition of each

1 system. The results of each investigation shall be filed with the
2 department, the office of financial management, the budget writing
3 committees of the Washington house of representatives and senate, the
4 select committee on pension policy, and the pension funding council.
5 Upon the basis of such actuarial investigation the department shall
6 adopt such tables, schedules, factors, and regulations as are deemed
7 necessary in the light of the findings of the actuary for the proper
8 operation of the state retirement systems.

9 NEW SECTION. **Sec. 9.** RCW 41.54.061 is decodified.

10 **Sec. 10.** RCW 44.04.260 and 2001 c 259 s 1 are each amended to read
11 as follows:

12 The joint legislative audit and review committee, the legislative
13 transportation committee, the ((joint)) select committee on pension
14 policy, the legislative evaluation and accountability program
15 committee, and the joint legislative systems committee are subject to
16 such operational policies, procedures, and oversight as are deemed
17 necessary by the facilities and operations committee of the senate and
18 the executive rules committee of the house of representatives to ensure
19 operational adequacy of the agencies of the legislative branch. As
20 used in this section, "operational policies, procedures, and oversight"
21 includes the development process of biennial budgets, contracting
22 procedures, personnel policies, and compensation plans, selection of a
23 chief administrator, facilities, and expenditures. This section does
24 not grant oversight authority to the facilities and operations
25 committee of the senate over any standing committee of the house of
26 representatives or oversight authority to the executive rules committee
27 of the house of representatives over any standing committee of the
28 senate.

29 **Sec. 11.** RCW 44.44.030 and 2001 c 259 s 11 are each amended to
30 read as follows:

31 (1) Subject to RCW 44.04.260, the state actuary shall have the
32 authority to select and employ such research, technical, clerical
33 personnel, and consultants as the actuary deems necessary, whose
34 salaries shall be fixed by the actuary and approved by the ((joint))

1 select committee on pension policy, and who shall be exempt from the
2 provisions of the state civil service law, chapter 41.06 RCW.

3 (2) All actuarial valuations and experience studies performed by
4 the office of the state actuary shall be signed by a member of the
5 American academy of actuaries. If the state actuary is not such a
6 member, the state actuary, after approval by the select committee,
7 shall contract for a period not to exceed two years with a member of
8 the American academy of actuaries to assist in developing actuarial
9 valuations and experience studies.

10 NEW SECTION. **Sec. 12.** The following acts or parts of acts are
11 each repealed:

- 12 (1) RCW 44.44.015 (Administration) and 2001 c 259 s 10;
13 (2) RCW 44.44.050 (Joint committee on pension policy--Membership,
14 terms, leadership) and 1987 c 25 s 4; and
15 (3) RCW 44.44.060 (Joint committee on pension policy--Powers and
16 duties) and 1987 c 25 s 5.

--- END ---

Governance

SHB 3010, Proposed Striking Amendment, and Other Recommendations

	SHB 3010	S4910.1 Striking Amendment	Other Recommendations
Creates	Select Committee on Pension Policy		
Repeals	Joint Committee on Pension Policy		
Staff	Office of the State Actuary		
Members	<u>16 Members</u> <ul style="list-style-type: none"> - 4 Senate members ¹ - 4 House members ² - 4 Active representatives - 2 Retiree representatives - 2 Employer representatives 	<u>20 Members</u> <ul style="list-style-type: none"> - 4 Senate members ³ - 4 House members ⁴ - 4 Active representatives - 2 Retiree representatives - 4 Employer representatives - Directors of DRS & OFM 	<u>20 Members</u> <ul style="list-style-type: none"> - 4 Senate members ³ - 4 House members ⁴ - 4 Active representatives - 2 Retiree representatives - 4 Employer representatives - 2 Gubernatorial appointees
Duties	<ul style="list-style-type: none"> - Study pension issues and develop pension policies - Study financial conditions of state pension systems and develop funding policies - Make recommendations to the legislature 		
Other	<ul style="list-style-type: none"> - Places the Office of the State Actuary under the Pension Funding Council. - The Pension Funding Council may appoint or remove the State Actuary 		

¹ Must be from the Ways and Means Committee

² Must be from the Appropriations Committee

³ Three must be from the Ways and Means Committee

⁴ Three must be from the Appropriations Committee

SUBSTITUTE HOUSE BILL 3010

State of Washington

57th Legislature

2002 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Fromhold, McIntire, Conway, Cooper, Hunt and Sullivan)

Read first time 03/04/2002. Referred to Committee on .

1 AN ACT Relating to creating the select committee on pension policy;
2 amending RCW 41.50.110, 44.44.040, 41.40.037, 41.45.100, 44.04.260, and
3 44.44.030; reenacting and amending RCW 41.32.570; adding new sections
4 to chapter 41.04 RCW; decodifying RCW 41.54.061; and repealing RCW
5 44.44.015, 44.44.050, and 44.44.060.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.04 RCW
8 to read as follows:

9 (1) The select committee on pension policy is created. The select
10 committee consists of:

11 (a) Four members of the senate ways and means committee appointed
12 by the president of the senate, two of whom are members of the majority
13 party and two of whom are members of the minority party;

14 (b) Four members of the house of representatives appropriations
15 committee appointed by the speaker, two of whom are members of the
16 majority party and two of whom are members of the minority party;

17 (c) Four active members or representatives from organizations of
18 active members of the state retirement systems appointed by the
19 governor for staggered three-year terms;

(d) Two retired members or representatives of retired members' organizations of the state retirement systems appointed by the governor for staggered three-year terms, with no two members from the same system; and

(e) Two employer representatives of members of the state retirement systems appointed by the governor for staggered three-year terms.

(2)(a) The term of office of each member of the house of representatives or senate serving on the committee runs from the close of the session in which he or she is appointed until the close of the next regular session held in an odd-numbered year. If a successor is not appointed during a session, the member's term continues until the member is reappointed or a successor is appointed. The term of office for a committee member who is a member of the house of representatives or the senate who does not continue as a member of the senate or house of representatives ceases upon the convening of the next session of the legislature during the odd-numbered year following the member's appointment, or upon the member's resignation, whichever is earlier. All vacancies of positions held by members of the legislature must be filled from the same political party and from the same house as the member whose seat was vacated.

(b) Following the terms of members and representatives appointed under subsection (1)(d) of this section, the retiree positions shall be rotated to ensure that each system has an opportunity to have a retiree representative on the committee.

(3) The committee shall elect a chairperson and a vice-chairperson.

(4) The committee shall establish an executive committee of four members, including the chairperson and the vice-chairperson.

(5) Nonlegislative members of the select committee serve without compensation, but shall be reimbursed for travel expenses under RCW 43.03.050 and 43.03.060.

(6) The office of state actuary under chapter 44.44 RCW shall provide staff and technical support to the committee.

Sec. 2. RCW 41.50.110 and 1998 c 341 s 508 are each amended to read as follows:

(1) Except as provided by RCW 41.50.255 and subsection (6) of this section, all expenses of the administration of the department ~~((and)),~~ the expenses of administration of the retirement systems, and the expenses of the administration of the office of the state actuary

1 created in chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.35,
2 (~~and~~) 43.43, and 44.44 RCW shall be paid from the department of
3 retirement systems expense fund.

4 (2) In order to reimburse the department of retirement systems
5 expense fund on an equitable basis the department shall ascertain and
6 report to each employer, as defined in RCW 41.26.030, 41.32.010,
7 41.35.010, or 41.40.010, the sum necessary to defray its proportional
8 share of the entire expense of the administration of the retirement
9 system that the employer participates in during the ensuing biennium or
10 fiscal year whichever may be required. Such sum is to be computed in
11 an amount directly proportional to the estimated entire expense of the
12 administration as the ratio of monthly salaries of the employer's
13 members bears to the total salaries of all members in the entire
14 system. It shall then be the duty of all such employers to include in
15 their budgets or otherwise provide the amounts so required.

16 (3) The department shall compute and bill each employer, as defined
17 in RCW 41.26.030, 41.32.010, 41.35.010, or 41.40.010, at the end of
18 each month for the amount due for that month to the department of
19 retirement systems expense fund and the same shall be paid as are its
20 other obligations. Such computation as to each employer shall be made
21 on a percentage rate of salary established by the department. However,
22 the department may at its discretion establish a system of billing
23 based upon calendar year quarters in which event the said billing shall
24 be at the end of each such quarter.

25 (4) The director may adjust the expense fund contribution rate for
26 each system at any time when necessary to reflect unanticipated costs
27 or savings in administering the department.

28 (5) An employer who fails to submit timely and accurate reports to
29 the department may be assessed an additional fee related to the
30 increased costs incurred by the department in processing the deficient
31 reports. Fees paid under this subsection shall be deposited in the
32 retirement system expense fund.

33 (a) Every six months the department shall determine the amount of
34 an employer's fee by reviewing the timeliness and accuracy of the
35 reports submitted by the employer in the preceding six months. If
36 those reports were not both timely and accurate the department may
37 prospectively assess an additional fee under this subsection.

38 (b) An additional fee assessed by the department under this
39 subsection shall not exceed fifty percent of the standard fee.

(c) The department shall adopt rules implementing this section.

(6) Expenses other than those under RCW 41.34.060 ~~((+2))~~ (3) shall be paid pursuant to subsection (1) of this section.

Sec. 3. RCW 44.44.040 and 1987 c 25 s 3 are each amended to read as follows:

The office of the state actuary shall have the following powers and duties:

(1) Perform all actuarial services for the department of retirement systems, including all studies required by law. ~~((Reimbursement for such services shall be made to the state actuary pursuant to the provisions of RCW 39.34.130 as now or hereafter amended.))~~

(2) Advise the legislature and the governor regarding pension benefit provisions, and funding policies and investment policies of the state investment board.

(3) Consult with the legislature and the governor concerning determination of actuarial assumptions used by the department of retirement systems.

(4) Prepare a report, to be known as the actuarial fiscal note, on each pension bill introduced in the legislature which briefly explains the financial impact of the bill. The actuarial fiscal note shall include: (a) The statutorily required contribution for the biennium and the following twenty-five years; (b) the biennial cost of the increased benefits if these exceed the required contribution; and (c) any change in the present value of the unfunded accrued benefits. An actuarial fiscal note shall also be prepared for all amendments which are offered in committee or on the floor of the house of representatives or the senate to any pension bill. However, a majority of the members present may suspend the requirement for an actuarial fiscal note for amendments offered on the floor of the house of representatives or the senate.

(5) Provide such actuarial services to the legislature as may be requested from time to time.

(6) Provide staff and assistance to the committee established under RCW ~~((46.44.050))~~ 44.44.050.

NEW SECTION. **Sec. 4.** A new section is added to chapter 41.04 RCW to read as follows:

1 The select committee on pension policy has the following powers and
2 duties:

3 (1) Study pension issues, develop pension policies for public
4 employees in state retirement systems, and make recommendations to the
5 legislature; and

6 (2) Study the financial condition of the state pension systems,
7 develop funding policies, and make recommendations to the legislature.

8 **Sec. 5.** RCW 41.32.570 and 2001 2nd sp.s. c 10 s 3 and 2001 c 317
9 s 1 are each reenacted and amended to read as follows:

10 (1)(a) If a retiree enters employment with an employer sooner than
11 one calendar month after his or her accrual date, the retiree's monthly
12 retirement allowance will be reduced by five and one-half percent for
13 every seven hours worked during that month. This reduction will be
14 applied each month until the retiree remains absent from employment
15 with an employer for one full calendar month.

16 (b) The benefit reduction provided in (a) of this subsection will
17 accrue for a maximum of one hundred forty hours per month. Any monthly
18 benefit reduction over one hundred percent will be applied to the
19 benefit the retiree is eligible to receive in subsequent months.

20 (2) Any retired teacher or retired administrator who enters service
21 in any public educational institution in Washington state and who has
22 satisfied the break in employment requirement of subsection (1) of this
23 section shall cease to receive pension payments while engaged in such
24 service, after the retiree has rendered service for more than one
25 thousand five hundred hours in a school year. When a retired teacher
26 or administrator renders service beyond eight hundred sixty-seven
27 hours, the department shall collect from the employer the applicable
28 employer retirement contributions for the entire duration of the
29 member's employment during that fiscal year.

30 (3) The department shall collect and provide the state actuary with
31 information relevant to the use of this section for the ((joint))
32 select committee on pension policy.

33 (4) The legislature reserves the right to amend or repeal this
34 section in the future and no member or beneficiary has a contractual
35 right to be employed for more than five hundred twenty-five hours per
36 year without a reduction of his or her pension.

1 **Sec. 6.** RCW 41.40.037 and 2001 2nd sp.s. c 10 s 4 are each amended
2 to read as follows:

3 (1)(a) If a retiree enters employment with an employer sooner than
4 one calendar month after his or her accrual date, the retiree's monthly
5 retirement allowance will be reduced by five and one-half percent for
6 every eight hours worked during that month. This reduction will be
7 applied each month until the retiree remains absent from employment
8 with an employer for one full calendar month.

9 (b) The benefit reduction provided in (a) of this subsection will
10 accrue for a maximum of one hundred sixty hours per month. Any benefit
11 reduction over one hundred percent will be applied to the benefit the
12 retiree is eligible to receive in subsequent months.

13 (2)(a) A retiree from plan 1 who has satisfied the break in
14 employment requirement of subsection (1) of this section and who enters
15 employment with an employer may continue to receive pension payments
16 while engaged in such service for up to one thousand five hundred hours
17 of service in a calendar year without a reduction of pension. When a
18 plan 1 member renders service beyond eight hundred sixty-seven hours,
19 the department shall collect from the employer the applicable employer
20 retirement contributions for the entire duration of the member's
21 employment during that calendar year.

22 (b) A retiree from plan 2 or plan 3 who has satisfied the break in
23 employment requirement of subsection (1) of this section may work up to
24 eight hundred sixty-seven hours in a calendar year in an eligible
25 position, as defined in RCW 41.32.010, 41.35.010, or 41.40.010, or as
26 a fire fighter or law enforcement officer, as defined in RCW 41.26.030,
27 without suspension of his or her benefit.

28 (3) If the retiree opts to reestablish membership under RCW
29 41.40.023(12), he or she terminates his or her retirement status and
30 becomes a member. Retirement benefits shall not accrue during the
31 period of membership and the individual shall make contributions and
32 receive membership credit. Such a member shall have the right to again
33 retire if eligible in accordance with RCW 41.40.180. However, if the
34 right to retire is exercised to become effective before the member has
35 rendered two uninterrupted years of service, the retirement formula and
36 survivor options the member had at the time of the member's previous
37 retirement shall be reinstated.

(4) The department shall collect and provide the state actuary with information relevant to the use of this section for the ((joint)) select committee on pension policy.

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to be employed for more than five months in a calendar year without a reduction of his or her pension.

Sec. 7. RCW 41.45.100 and 1998 c 283 s 2 are each amended to read as follows:

(1) The pension funding council is hereby created. The council consists of the:

- (a) Director of the department of retirement systems;
- (b) Director of the office of financial management;
- (c) Chair and ranking minority member of the house of representatives appropriations committee; and
- (d) Chair and ranking minority member of the senate ways and means committee.

The council may select officers as the members deem necessary.

(2) The pension funding council shall adopt changes to economic assumptions and contribution rates by an affirmative vote of at least four members.

(3) The council may appoint or remove the state actuary by a two-thirds vote of the council.

NEW SECTION. **Sec. 8.** RCW 41.54.061 is decodified.

Sec. 9. RCW 44.04.260 and 2001 c 259 s 1 are each amended to read as follows:

The joint legislative audit and review committee, the legislative transportation committee, the ((joint)) select committee on pension policy, the legislative evaluation and accountability program committee, and the joint legislative systems committee are subject to such operational policies, procedures, and oversight as are deemed necessary by the facilities and operations committee of the senate and the executive rules committee of the house of representatives to ensure operational adequacy of the agencies of the legislative branch. As used in this section, "operational policies, procedures, and oversight" includes the development process of biennial budgets, contracting

1 procedures, personnel policies, and compensation plans, selection of a
2 chief administrator, facilities, and expenditures. This section does
3 not grant oversight authority to the facilities and operations
4 committee of the senate over any standing committee of the house of
5 representatives or oversight authority to the executive rules committee
6 of the house of representatives over any standing committee of the
7 senate.

8 **Sec. 10.** RCW 44.44.030 and 2001 c 259 s 11 are each amended to
9 read as follows:

10 (1) Subject to RCW 44.04.260, the state actuary shall have the
11 authority to select and employ such research, technical, clerical
12 personnel, and consultants as the actuary deems necessary, whose
13 salaries shall be fixed by the actuary and approved by the (~~joint~~
14 ~~committee on pension policy~~) pension funding council, and who shall be
15 exempt from the provisions of the state civil service law, chapter
16 41.06 RCW.

17 (2) All actuarial valuations and experience studies performed by
18 the office of the state actuary shall be signed by a member of the
19 American academy of actuaries. If the state actuary is not such a
20 member, the state actuary, after approval by the (~~committee~~) council,
21 shall contract for a period not to exceed two years with a member of
22 the American academy of actuaries to assist in developing actuarial
23 valuations and experience studies.

24 NEW SECTION. **Sec. 11.** The following acts or parts of acts are
25 each repealed:

- 26 (1) RCW 44.44.015 (Administration) and 2001 c 259 s 10;
27 (2) RCW 44.44.050 (Joint committee on pension policy--Membership,
28 terms, leadership) and 1987 c 25 s 4; and
29 (3) RCW 44.44.060 (Joint committee on pension policy--Powers and
30 duties) and 1987 c 25 s 5.

--- END ---

2 **SHB 3010** - S AMD
3 By Senator Winsley

4

5 Strike everything after the enacting clause and insert the
6 following:

7 "NEW SECTION. **Sec. 1.** A new section is added to chapter 41.04 RCW
8 to read as follows:

9 (1) The select committee on pension policy is created. The select
10 committee consists of:

11 (a) Four members of the senate appointed by the president of the
12 senate, two of whom are members of the majority party and two of whom
13 are members of the minority party. At least three of the appointees
14 shall be members of the senate ways and means committee;

15 (b) Four members of the house of representatives appointed by the
16 speaker, two of whom are members of the majority party and two of whom
17 are members of the minority party. At least three of the appointees
18 shall be members of the house of representatives appropriations
19 committee;

20 (c) Four active members or representatives from organizations of
21 active members of the state retirement systems appointed by the
22 governor for staggered three-year terms;

23 (d) Two retired members or representatives of retired members'
24 organizations of the state retirement systems appointed by the governor
25 for staggered three-year terms, with no two members from the same
26 system;

27 (e) Four employer representatives of members of the state
28 retirement systems appointed by the governor for staggered three-year
29 terms; and

30 (f) The director of the office of financial management and the
31 director of the department of retirement systems.

32 (2)(a) The term of office of each member of the house of
33 representatives or senate serving on the committee runs from the close
34 of the session in which he or she is appointed until the close of the
35 next regular session held in an odd-numbered year. If a successor is
36 not appointed during a session, the member's term continues until the

1 member is reappointed or a successor is appointed. The term of office
2 for a committee member who is a member of the house of representatives
3 or the senate who does not continue as a member of the senate or house
4 of representatives ceases upon the convening of the next session of the
5 legislature during the odd-numbered year following the member's
6 appointment, or upon the member's resignation, whichever is earlier.
7 All vacancies of positions held by members of the legislature must be
8 filled from the same political party and from the same house as the
9 member whose seat was vacated.

10 (b) Following the terms of members and representatives appointed
11 under subsection (1)(d) of this section, the retiree positions shall be
12 rotated to ensure that each system has an opportunity to have a retiree
13 representative on the committee.

14 (3) The committee shall elect a chairperson and a vice-chairperson.
15 The chairperson shall be a member of the senate in even-numbered years
16 and a member of the house of representatives in odd-numbered years.

17 (4) The committee shall establish an executive committee of four
18 members, including the chairperson and the vice-chairperson.

19 (5) Nonlegislative members of the select committee serve without
20 compensation, but shall be reimbursed for travel expenses under RCW
21 43.03.050 and 43.03.060.

22 (6) The office of state actuary under chapter 44.44 RCW shall
23 provide staff and technical support to the committee.

24 **Sec. 2.** RCW 41.50.110 and 1998 c 341 s 508 are each amended to
25 read as follows:

26 (1) Except as provided by RCW 41.50.255 and subsection (6) of this
27 section, all expenses of the administration of the department (~~((and))~~),
28 the expenses of administration of the retirement systems, and the
29 expenses of the administration of the office of the state actuary
30 created in chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.35,
31 (~~((and))~~) 43.43, and 44.44 RCW shall be paid from the department of
32 retirement systems expense fund.

33 (2) In order to reimburse the department of retirement systems
34 expense fund on an equitable basis the department shall ascertain and
35 report to each employer, as defined in RCW 41.26.030, 41.32.010,
36 41.35.010, or 41.40.010, the sum necessary to defray its proportional
37 share of the entire expense of the administration of the retirement
38 system that the employer participates in during the ensuing biennium or

1 fiscal year whichever may be required. Such sum is to be computed in
2 an amount directly proportional to the estimated entire expense of the
3 administration as the ratio of monthly salaries of the employer's
4 members bears to the total salaries of all members in the entire
5 system. It shall then be the duty of all such employers to include in
6 their budgets or otherwise provide the amounts so required.

7 (3) The department shall compute and bill each employer, as defined
8 in RCW 41.26.030, 41.32.010, 41.35.010, or 41.40.010, at the end of
9 each month for the amount due for that month to the department of
10 retirement systems expense fund and the same shall be paid as are its
11 other obligations. Such computation as to each employer shall be made
12 on a percentage rate of salary established by the department. However,
13 the department may at its discretion establish a system of billing
14 based upon calendar year quarters in which event the said billing shall
15 be at the end of each such quarter.

16 (4) The director may adjust the expense fund contribution rate for
17 each system at any time when necessary to reflect unanticipated costs
18 or savings in administering the department.

19 (5) An employer who fails to submit timely and accurate reports to
20 the department may be assessed an additional fee related to the
21 increased costs incurred by the department in processing the deficient
22 reports. Fees paid under this subsection shall be deposited in the
23 retirement system expense fund.

24 (a) Every six months the department shall determine the amount of
25 an employer's fee by reviewing the timeliness and accuracy of the
26 reports submitted by the employer in the preceding six months. If
27 those reports were not both timely and accurate the department may
28 prospectively assess an additional fee under this subsection.

29 (b) An additional fee assessed by the department under this
30 subsection shall not exceed fifty percent of the standard fee.

31 (c) The department shall adopt rules implementing this section.

32 (6) Expenses other than those under RCW 41.34.060(~~(+2)~~) (3) shall
33 be paid pursuant to subsection (1) of this section.

34 **Sec. 3.** RCW 44.44.040 and 1987 c 25 s 3 are each amended to read
35 as follows:

36 The office of the state actuary shall have the following powers and
37 duties:

1 (1) Perform all actuarial services for the department of retirement
2 systems, including all studies required by law. (~~Reimbursement for~~
3 ~~such services shall be made to the state actuary pursuant to the~~
4 ~~provisions of RCW 39.34.130 as now or hereafter amended.~~))

5 (2) Advise the legislature and the governor regarding pension
6 benefit provisions, and funding policies and investment policies of the
7 state investment board.

8 (3) Consult with the legislature and the governor concerning
9 determination of actuarial assumptions used by the department of
10 retirement systems.

11 (4) Prepare a report, to be known as the actuarial fiscal note, on
12 each pension bill introduced in the legislature which briefly explains
13 the financial impact of the bill. The actuarial fiscal note shall
14 include: (a) The statutorily required contribution for the biennium
15 and the following twenty-five years; (b) the biennial cost of the
16 increased benefits if these exceed the required contribution; and (c)
17 any change in the present value of the unfunded accrued benefits. An
18 actuarial fiscal note shall also be prepared for all amendments which
19 are offered in committee or on the floor of the house of
20 representatives or the senate to any pension bill. However, a majority
21 of the members present may suspend the requirement for an actuarial
22 fiscal note for amendments offered on the floor of the house of
23 representatives or the senate.

24 (5) Provide such actuarial services to the legislature as may be
25 requested from time to time.

26 (6) Provide staff and assistance to the committee established under
27 RCW (~~46.44.050~~) 44.44.050.

28 NEW SECTION. **Sec. 4.** A new section is added to chapter 41.04 RCW
29 to read as follows:

30 The select committee on pension policy has the following powers and
31 duties:

32 (1) Study pension issues, develop pension policies for public
33 employees in state retirement systems, and make recommendations to the
34 legislature; and

35 (2) Study the financial condition of the state pension systems,
36 develop funding policies, and make recommendations to the legislature.

Sec. 5. RCW 41.32.570 and 2001 2nd sp.s. c 10 s 3 and 2001 c 317 s 1 are each reenacted and amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every seven hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred forty hours per month. Any monthly benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2) Any retired teacher or retired administrator who enters service in any public educational institution in Washington state and who has satisfied the break in employment requirement of subsection (1) of this section shall cease to receive pension payments while engaged in such service, after the retiree has rendered service for more than one thousand five hundred hours in a school year. When a retired teacher or administrator renders service beyond eight hundred sixty-seven hours, the department shall collect from the employer the applicable employer retirement contributions for the entire duration of the member's employment during that fiscal year.

(3) The department shall collect and provide the state actuary with information relevant to the use of this section for the ((joint)) select committee on pension policy.

(4) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to be employed for more than five hundred twenty-five hours per year without a reduction of his or her pension.

Sec. 6. RCW 41.40.037 and 2001 2nd sp.s. c 10 s 4 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

1 (b) The benefit reduction provided in (a) of this subsection will
2 accrue for a maximum of one hundred sixty hours per month. Any benefit
3 reduction over one hundred percent will be applied to the benefit the
4 retiree is eligible to receive in subsequent months.

5 (2)(a) A retiree from plan 1 who has satisfied the break in
6 employment requirement of subsection (1) of this section and who enters
7 employment with an employer may continue to receive pension payments
8 while engaged in such service for up to one thousand five hundred hours
9 of service in a calendar year without a reduction of pension. When a
10 plan 1 member renders service beyond eight hundred sixty-seven hours,
11 the department shall collect from the employer the applicable employer
12 retirement contributions for the entire duration of the member's
13 employment during that calendar year.

14 (b) A retiree from plan 2 or plan 3 who has satisfied the break in
15 employment requirement of subsection (1) of this section may work up to
16 eight hundred sixty-seven hours in a calendar year in an eligible
17 position, as defined in RCW 41.32.010, 41.35.010, or 41.40.010, or as
18 a fire fighter or law enforcement officer, as defined in RCW 41.26.030,
19 without suspension of his or her benefit.

20 (3) If the retiree opts to reestablish membership under RCW
21 41.40.023(12), he or she terminates his or her retirement status and
22 becomes a member. Retirement benefits shall not accrue during the
23 period of membership and the individual shall make contributions and
24 receive membership credit. Such a member shall have the right to again
25 retire if eligible in accordance with RCW 41.40.180. However, if the
26 right to retire is exercised to become effective before the member has
27 rendered two uninterrupted years of service, the retirement formula and
28 survivor options the member had at the time of the member's previous
29 retirement shall be reinstated.

30 (4) The department shall collect and provide the state actuary with
31 information relevant to the use of this section for the ((joint))
32 select committee on pension policy.

33 (5) The legislature reserves the right to amend or repeal this
34 section in the future and no member or beneficiary has a contractual
35 right to be employed for more than five months in a calendar year
36 without a reduction of his or her pension.

37 **Sec. 7.** RCW 41.45.100 and 1998 c 283 s 2 are each amended to read
38 as follows:

(1) The pension funding council is hereby created. The council consists of the:

- (a) Director of the department of retirement systems;
- (b) Director of the office of financial management;
- (c) Chair and ranking minority member of the house of representatives appropriations committee; and
- (d) Chair and ranking minority member of the senate ways and means committee.

The council may select officers as the members deem necessary.

(2) The pension funding council shall adopt changes to economic assumptions and contribution rates by an affirmative vote of at least four members.

(3) The council may appoint or remove the state actuary by a two-thirds vote of the council.

NEW SECTION. **Sec. 8.** RCW 41.54.061 is decodified.

Sec. 9. RCW 44.04.260 and 2001 c 259 s 1 are each amended to read as follows:

The joint legislative audit and review committee, the legislative transportation committee, the ((joint)) select committee on pension policy, the legislative evaluation and accountability program committee, and the joint legislative systems committee are subject to such operational policies, procedures, and oversight as are deemed necessary by the facilities and operations committee of the senate and the executive rules committee of the house of representatives to ensure operational adequacy of the agencies of the legislative branch. As used in this section, "operational policies, procedures, and oversight" includes the development process of biennial budgets, contracting procedures, personnel policies, and compensation plans, selection of a chief administrator, facilities, and expenditures. This section does not grant oversight authority to the facilities and operations committee of the senate over any standing committee of the house of representatives or oversight authority to the executive rules committee of the house of representatives over any standing committee of the senate.

Sec. 10. RCW 44.44.030 and 2001 c 259 s 11 are each amended to read as follows:

(1) Subject to RCW 44.04.260, the state actuary shall have the authority to select and employ such research, technical, clerical personnel, and consultants as the actuary deems necessary, whose salaries shall be fixed by the actuary and approved by the ~~((joint committee on pension policy))~~ pension funding council, and who shall be exempt from the provisions of the state civil service law, chapter 41.06 RCW.

(2) All actuarial valuations and experience studies performed by the office of the state actuary shall be signed by a member of the American academy of actuaries. If the state actuary is not such a member, the state actuary, after approval by the ~~((committee))~~ council, shall contract for a period not to exceed two years with a member of the American academy of actuaries to assist in developing actuarial valuations and experience studies.

NEW SECTION. **Sec. 11.** The following acts or parts of acts are each repealed:

- (1) RCW 44.44.015 (Administration) and 2001 c 259 s 10;
- (2) RCW 44.44.050 (Joint committee on pension policy--Membership, terms, leadership) and 1987 c 25 s 4; and
- (3) RCW 44.44.060 (Joint committee on pension policy--Powers and duties) and 1987 c 25 s 5."

SHB 3010 - S AMD
By Senator

On page 1, line 1 of the title, after "policy;" strike the remainder of the title and insert "amending RCW 41.50.110, 44.44.040, 41.40.037, 41.45.100, 44.04.260, and 44.44.030; reenacting and amending RCW 41.32.570; adding new sections to chapter 41.04 RCW; decodifying RCW 41.54.061; and repealing RCW 44.44.015, 44.44.050, and 44.44.060."

--- END ---

LEOFF 2 Duty-related Disability

Background:

Duty disability benefits in LEOFF 2 are distinct from those in Plan 1 in that they are an earned retirement benefit rather than a fixed percent of pay regardless of time in service.

LEOFF 2 members who meet the various duty disability standards are eligible for an earned retirement benefit, worker's compensation benefits, possibly Social Security benefits, and supplemental disability insurance coverage if enrolled. If there is a question of employer liability in a disability case, members also have the right to bring legal action against their employer.

Committee Activity:

Presentation:

August 14, 2002, Full Committee Meeting

Recommendation to Legislature:

None.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

LEOFF 2

Duty-related Disability

Issue Summary

Duty disability benefits in LEOFF 2 are distinct from those in plan 1 in that they are an earned retirement benefit rather than a fixed percent of pay regardless of time in service.

LEOFF 2 members who meet the various duty disability standards are eligible for an earned retirement benefit, worker's compensation benefits, possibly Social Security benefits, and supplemental disability insurance coverage if enrolled. If there is a question of employer liability in a disability case, members also have the right to bring legal action against their employer.

This paper will provide an overview of the various disability standards and benefits.

LEOFF 2 Duty Disability Standard (RCW 41.26.470)

A member who becomes totally incapacitated for continued employment by an employer as determined by the director shall be eligible to receive an allowance under the provisions of RCW 41.26. Such member shall receive a monthly disability allowance computed as provided for in RCW 41.26.420 and shall have such allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age fifty-three.

Early Hire LEOFF 2 Disability Scenario

43 years of age, 20 years of service, \$70,000 salary
Actuarial reduction factor for a member 10 years from retirement age: .3921
Benefit: $\$68,068 \times 20 \times 2\% \times .3921 = \$10,676$ per year or \$890 per month

Average LEOFF 2 Member Disability Scenario

38 years of age, 10 years of service, \$59,600 salary
Actuarial reduction factor for a member 15 years from retirement age: .2541
Benefit: $\$57,287 \times 10 \times 2\% \times .2541 = \$2,911$ per year or \$243 per month

Disability Leave Supplement for a Temporary Total Disability (RCW 41.04.500)

Employers of LEOFF members shall provide a disability leave supplement to employees who qualify for payments under the Department of Labor and Industries Worker's Compensation program (RCW 51.32.090) due to a temporary total disability.

Disability Leave Supplement Amount (RCW 41.04.505)

The disability leave supplement shall be an amount which, when added to the amount payable under RCW 51.32.090 will result in the employee receiving the same pay they would have received for full time active service, taking into account that industrial insurance payments are not subject to federal income or social security taxes.

This benefit is paid for through use of employee's sick and annual leave accumulations and employer payments: ½ employee; ½ employer.

Disability Leave Supplement Estimates		
	Early Hire LEOFF 2	Average LEOFF 2
Monthly Salary	\$5,833	\$4,967
L&I Tax-free equivalent ¹	\$4,380	\$4,380
Supplement amount	\$1,453	\$587

¹Assumes a 15% tax rate.

Employer Liability

Beyond these benefits LEOFF 2 members are eligible to receive, they also have the right to sue their employer if their disability is a result of negligence on the part of their employer (RCW 41.26.280 and RCW 41.26.281)

Other Issues

Because LEOFF 1 members are not eligible for Worker's Compensation, and because their duty-disability retirement benefit is awarded in the nature of worker's compensation, it is tax free. In comparison, LEOFF 2 members are eligible for worker's compensation, and their duty-disability retirement benefit is an earned retirement benefit. As a result, their duty-disability retirement benefit is not tax free.

Lump-Sum Alternative

At this time there are no LEOFF 2 members receiving a duty-disability retirement benefit. Because of the age and service characteristics of LEOFF 2 members who have been disabled, the actuarial reduction results in a modest duty disability retirement allowance. Up to this date, all members have opted for a refund of 150% of their accumulated contributions and interest in lieu of a duty disability retirement benefit.

The duty-disabled 43 year old with 20 years of service and \$70,000 salary would be eligible to withdraw \$230,000.

The duty-disabled 38 year old with 10 years of service and \$59,600 salary would be eligible to withdraw \$71,000.

Worker's Compensation:

Time-Loss Benefits

Those unable to work as a result of injury or disease, will be paid a portion of their regular wages. These time-loss compensation payments will not provide the same income as when they were working (this is where the disability leave supplement applies.)

The amount of a time-loss benefit is 60 to 75 percent of a worker's gross income (includes wages/salary plus medical, dental, and vision benefits, room and board, bonuses, and tips). The percentage depends on the worker's marital status and number of dependents. These benefits cannot exceed 120 percent of the state's average wage ($\$37,229 \times 1.2 = \$44,675$).

Awards for Partial Permanent Disabilities

If an injury or occupational disease causes permanent loss of bodily function, the injured worker will receive a permanent partial disability award. The amount received for any physical loss is established by the Legislature and does not include compensation for pain and suffering. There are two types of permanent partial disabilities:

- Specified disabilities: Some disabilities have awards that are already set by law. These are easily quantified losses, such as loss of your vision or hearing, or the loss of an eye, leg, foot, toe, arm or finger by amputation (see Appendix A.)
- Unspecified disabilities: These disabilities include every other type of impairment caused by an on-the-job injury or occupational illness, including the partial loss of function to a limb.

Rating Unspecified Disabilities

The degree of a partial loss of function is determined by a disability rating. These ratings are conducted either by the attending physician, or by one or more independent medical examiners using established medical standards and guidelines. Normally, ratings are performed after all services have been completed, the injured worker is medically stable and no further treatment is appropriate.

A permanent partial disability award is not jeopardized by working. Workers are encouraged to return to their job as soon as their doctor releases them for work. Any permanent partial disability award is based on the degree of damage suffered, not on whether you can work.

Pensions for Total Permanent Disabilities

If an accident results in the loss or total paralysis of both legs or arms, one leg and one arm, or a total loss of eyesight, a worker is eligible for a pension by law, even if able to return to work.

If vocational and medical evaluations determine that an injury prevents a worker from ever becoming gainfully employed, they may be paid a monthly pension for life. However, this type of "non-statutory" pension may not be payable if a worker is able to return to work.

Pension benefits are paid monthly. They are based on the amount of time-loss compensation to which a worker is entitled. As with time-loss compensation benefits, the amount a worker is eligible to receive depends on factors such as wages, marital status, number of dependents, health care benefits, Social Security benefits and the state's average wage at the time of your injury. In some cases, a pension benefit amount may be reduced for previously paid permanent partial disability awards.

Pension Survivor Options

If a worker is granted an L&I pension, they can choose one of these survivor options:

- An unreduced single life pension.
- A reduced joint and 50% pension.
- A further reduced joint and 100% pension.

Social Security Disability:

The definition of disability under Social Security is different than other programs. Social Security pays only for total disability. No benefits are payable for partial disability or for short-term disability.

Disability under Social Security is based on an individual's inability to work. An individual is considered disabled under Social Security rules if they cannot do work they did before and they cannot adjust to other work because of their medical condition(s). An individual's disability must also last or be expected to last for at least one year or to result in death.

This is a strict definition of disability. Social Security program rules assume that working families have access to other resources to provide support during periods of short-term disabilities, including workers' compensation, insurance, savings and investments.

Social Security Standard for Disability

Those applying for a Social Security disability benefit are evaluated via a progressive series of question beginning with...

... **Are they working?** Those currently working and earning more than \$780 a month generally are not disabled. For those not working...

... **Is their condition "severe"?** A condition must interfere with basic work-related activities to be a disability. If it does not, there is no disability. If it does...

... **Is their condition on the list of disabling conditions?** Social Security maintains a list of medical conditions that automatically mean a worker is disabled. If the condition is not on the list, Social Security determines if it is of equal severity to a condition on the list. If it is, the worker is disabled. If it is not...

... **Can they do the work they did previously?** If the condition is severe but not at the same or equal level of severity as a medical condition on the list, then Social Security determines if it interferes with their ability to do the work they did previously. If it doesn't, the claim will be denied. If it does...

... **Can they do any other type of work?** If they cannot adjust to other work, their claim will be approved. If they can adjust to other work, their claim will be denied.

Estimated Social Security Disability Award	
Early Hire LEOFF 2	\$1,629 / month
LEOFF 2 Average	\$1,550 / month

How Much Work Is Needed?

In addition to meeting the Social Security definition of disability, a worker must have worked long enough--and recently enough--under Social Security to qualify for disability benefits. Social Security work credits are based on total yearly wages or self-employment income. Up to four credits can be earned each year. The amount needed for a credit changes from year to year. For 2002, \$870 of wages will earn one credit, and \$3,480 of wages will earn the maximum four credits.

The number of work credits needed to qualify for disability benefits depends on the age of disability. Generally, a workers needs 40 credits, 20 of which were earned in the last 10 years ending with the year they become disabled. However, younger workers may qualify with fewer credits.

Appendix A

L&I AWARDS FOR LOSS BY AMPUTATION	
	July 1, 2002
Of leg above the knee joint with short thigh stump (3" or less below the tuberosity of ischium)	\$94,793
Of leg at or above knee joint with functional stump	\$85,313
Of leg below knee joint	\$75,834
Of leg at ankle (Syme)	\$66,355
Of foot at mid-metatarsals	\$33,177
Of great toe with resection of metatarsal bone	\$19,906
Of great toe at metatarsophalangeal joint	\$11,944
Of great toe at interphalangeal joint	\$6,320
Of lesser toe (2nd to 5th) with resection of metatarsal bone	\$7,267
Of lesser toe at metatarsophalangeal joint	\$3,539
Of lesser toe at proximal interphalangeal joint	\$2,623
Of lesser toe at distal interphalangeal joint	\$664
Of arm at or above the deltoid insertion or by disarticulation at the shoulder	\$94,793
Of arm at any point from below the deltoid insertion to below the elbow joint at the insertion of the biceps tendon	\$90,053
Of arm at any point from below the elbow joint distal to the insertion of the biceps tendon to and including mid-metacarpal amputation of the hand	\$85,313
Of all fingers except the thumb at metacarpophalangeal joints	\$51,188
Of thumb at metacarpophalangeal joint or with resection of carpometacarpal bone	\$34,125
Of thumb at interphalangeal joint	\$17,063
Of index finger at metacarpophalangeal joint or with resection of metacarpal bone	\$21,328
Of index finger at proximal interphalangeal joint	\$17,063
Of index finger at distal interphalangeal joint	\$9,384
Of middle finger at metacarpophalangeal joint or with resection of metacarpal bone	\$17,063
Of middle finger at proximal interphalangeal joint	\$13,650
Of middle finger at distal interphalangeal joint	\$7,678
Of ring finger at metacarpophalangeal joint or with resection of metacarpal bone	\$8,531
Of ring finger at proximal interphalangeal joint	\$6,825
Of ring finger at distal interphalangeal joint	\$4,266
Of little finger at metacarpophalangeal joint or with resection of metacarpal bone	\$4,266
Of little finger at proximal interphalangeal joint	\$3,413
Of little finger at distal interphalangeal joint	\$1,706

Plan 1 Retiree COLAs

Background:

PERS 1 and TRS 1 retirees are eligible to receive the Uniform COLA after they have been retired for at least one year and are age 66. The Uniform COLA is the product of the Annual Increase Amount, currently \$1.14, times each individual member's months and years of service. The Annual Increase Amount is increased by a minimum of 3% each year, with gain-sharing also providing increases when retirement plan assets meet the extraordinary gain threshold.

Committee Activity:

Presentation:

May 13, 2002, Full Committee Meeting

Recommendation to Legislature:

None.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov



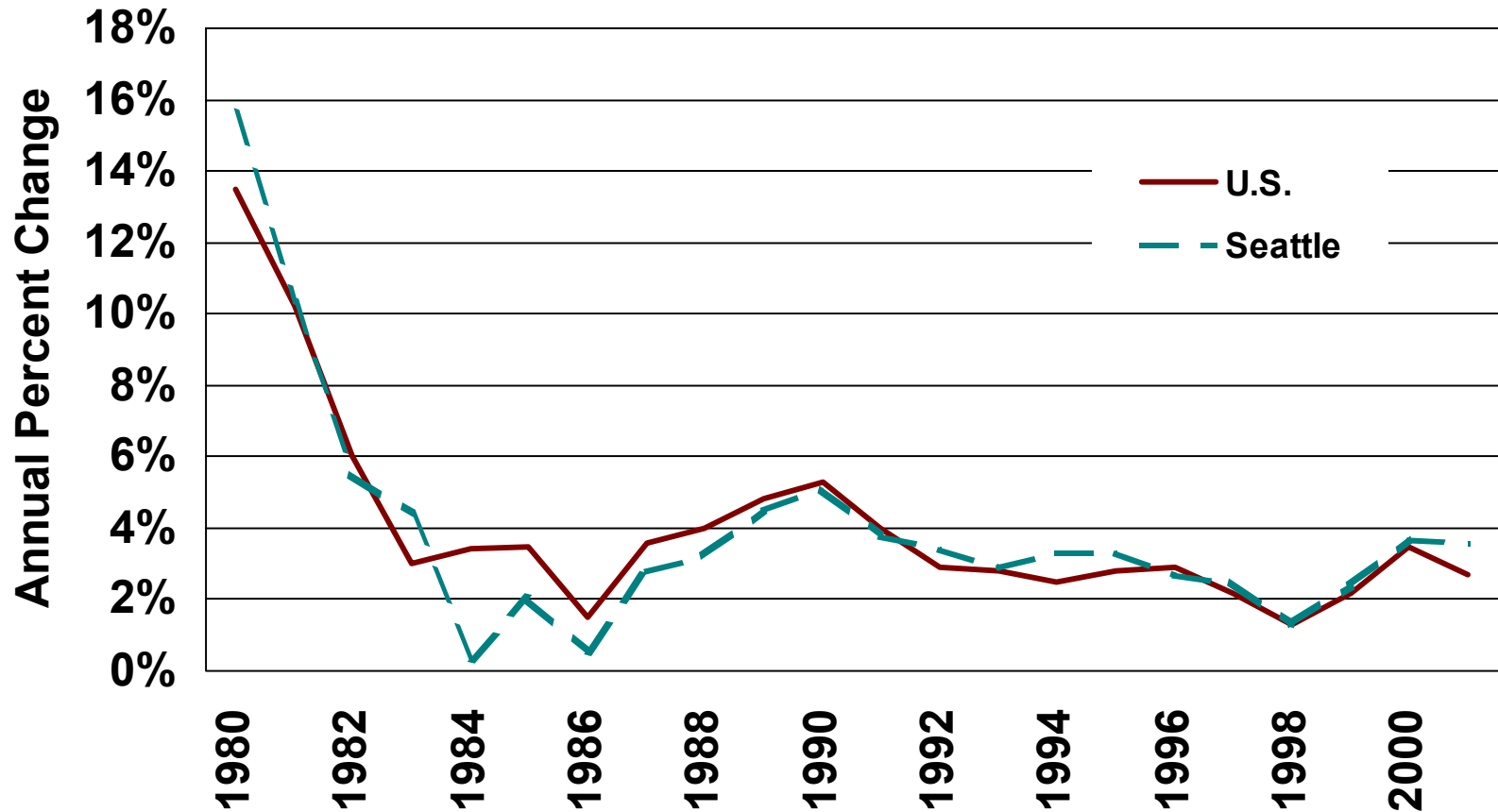
Plan 1 Retiree COLA's

Robert Wm. Baker

Joint Committee on Pension Policy
May 13, 2002

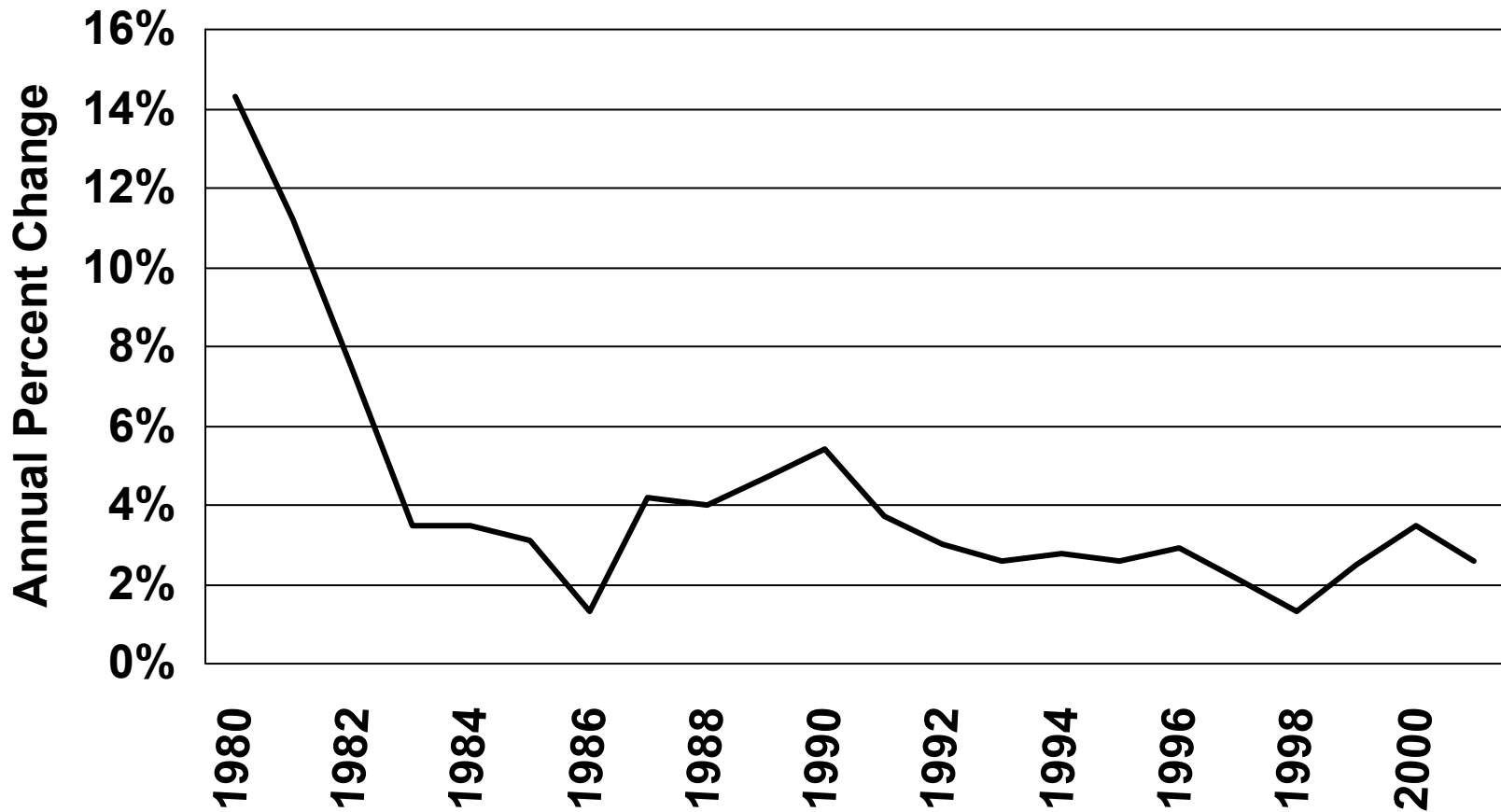
Consumer Price Indices

Urban Wage Earners and Clerical Workers



Social Security

Annual % Increases



Changes in Consumer Prices by Select Periods

Periods	United States		Seattle	
	Total	Annual	Total	Annual
1996-2001	12.6%	2.4%	13.0%	2.5%
1991-2001	29.2%	2.6%	31.8%	2.8%
1986-2001	59.8%	3.2%	59.2%	3.2%
1981-2001	89.8%	3.3%	80.4%	3.0%

PERS/TRS 1 COLA Benefits

Uniform Benefit: At age 66, after 1 yr of retirement, a dollar amount per month per year of service increased each year by 3%

LEOFF 1 COLA Benefits

Annual increases based on the Seattle CPI-W.

Plan 2 COLA Benefits

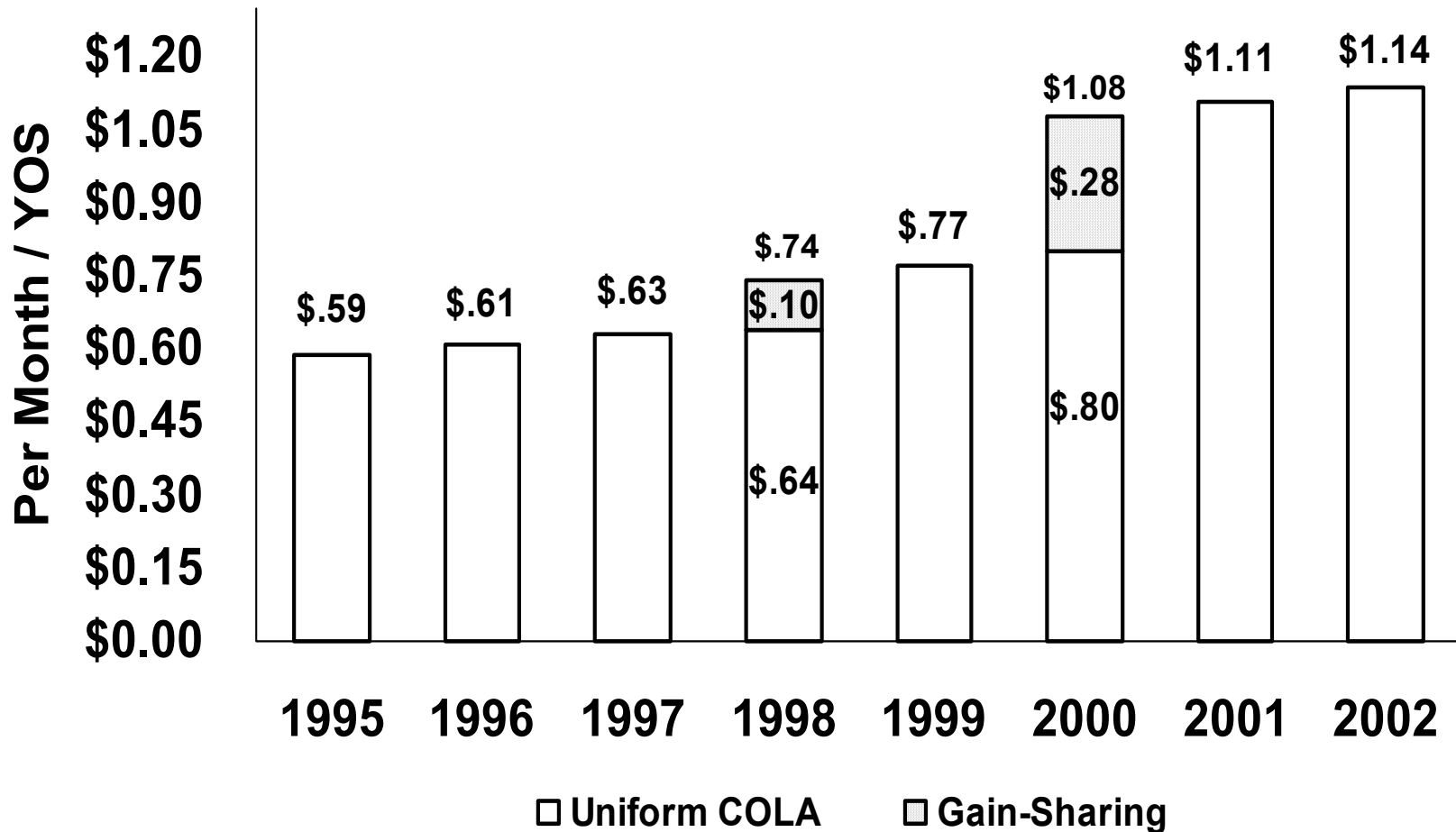
After 1 year of retirement, annual increases based on the Seattle CPI to a maximum of 3% per year

Plan 3 COLA Benefits

After 1 year of retirement, annual increases in the defined benefit portion based on the Seattle CPI to a maximum of 3% per year

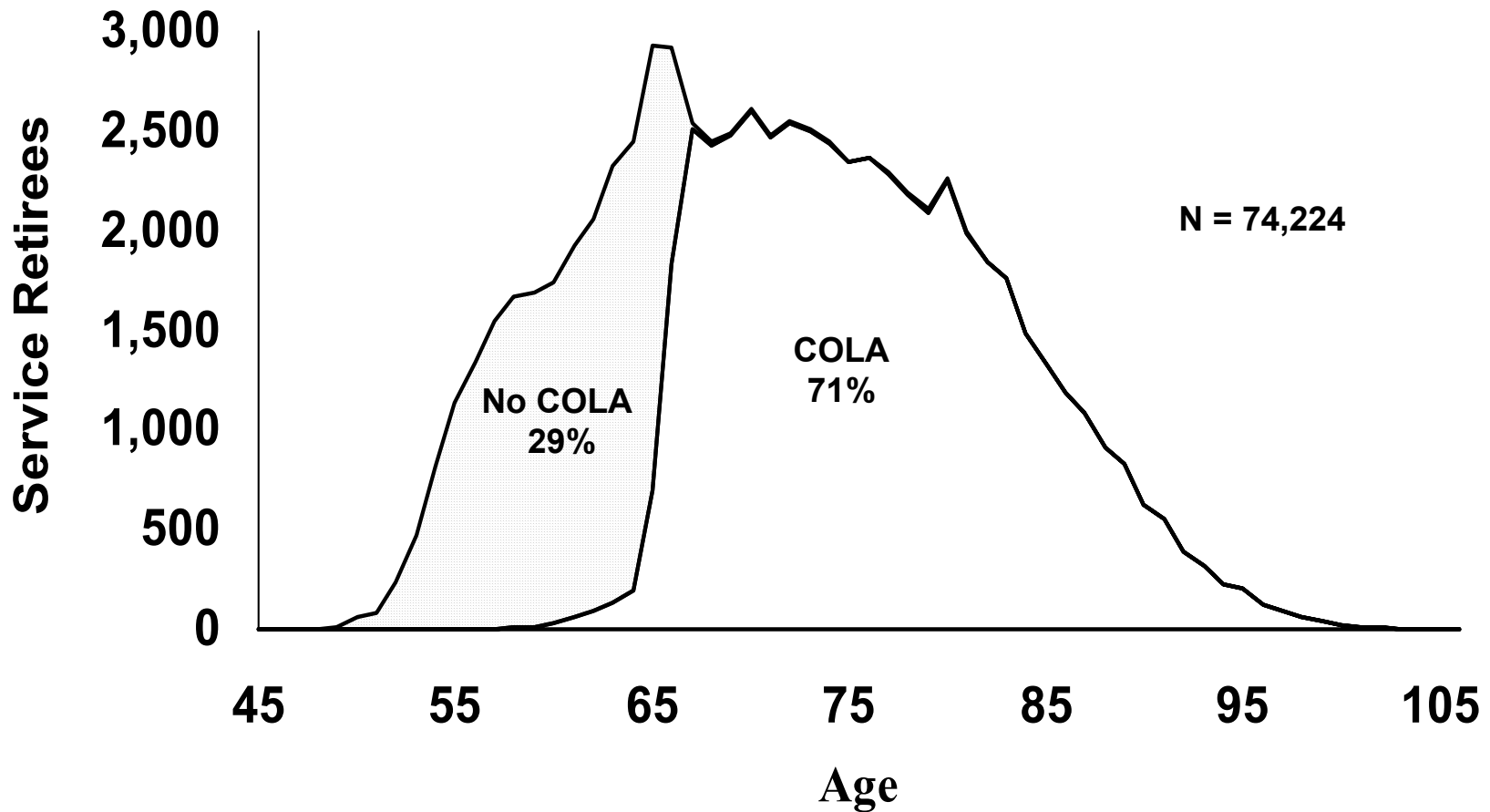
Uniform Increase Amount

PERS/TRS Plan 1



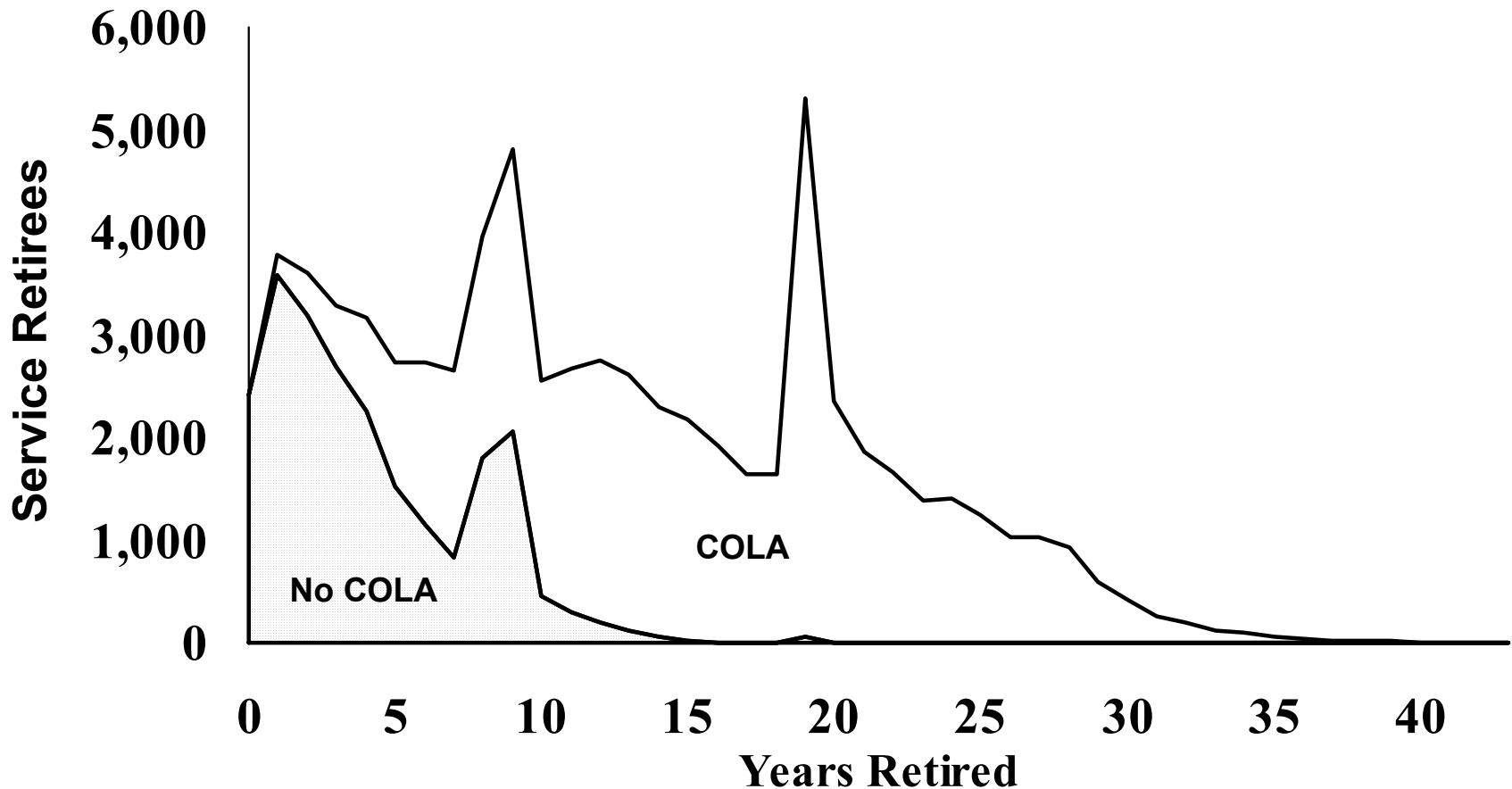
COLA Status by Age

PERS/TRS Plan 1



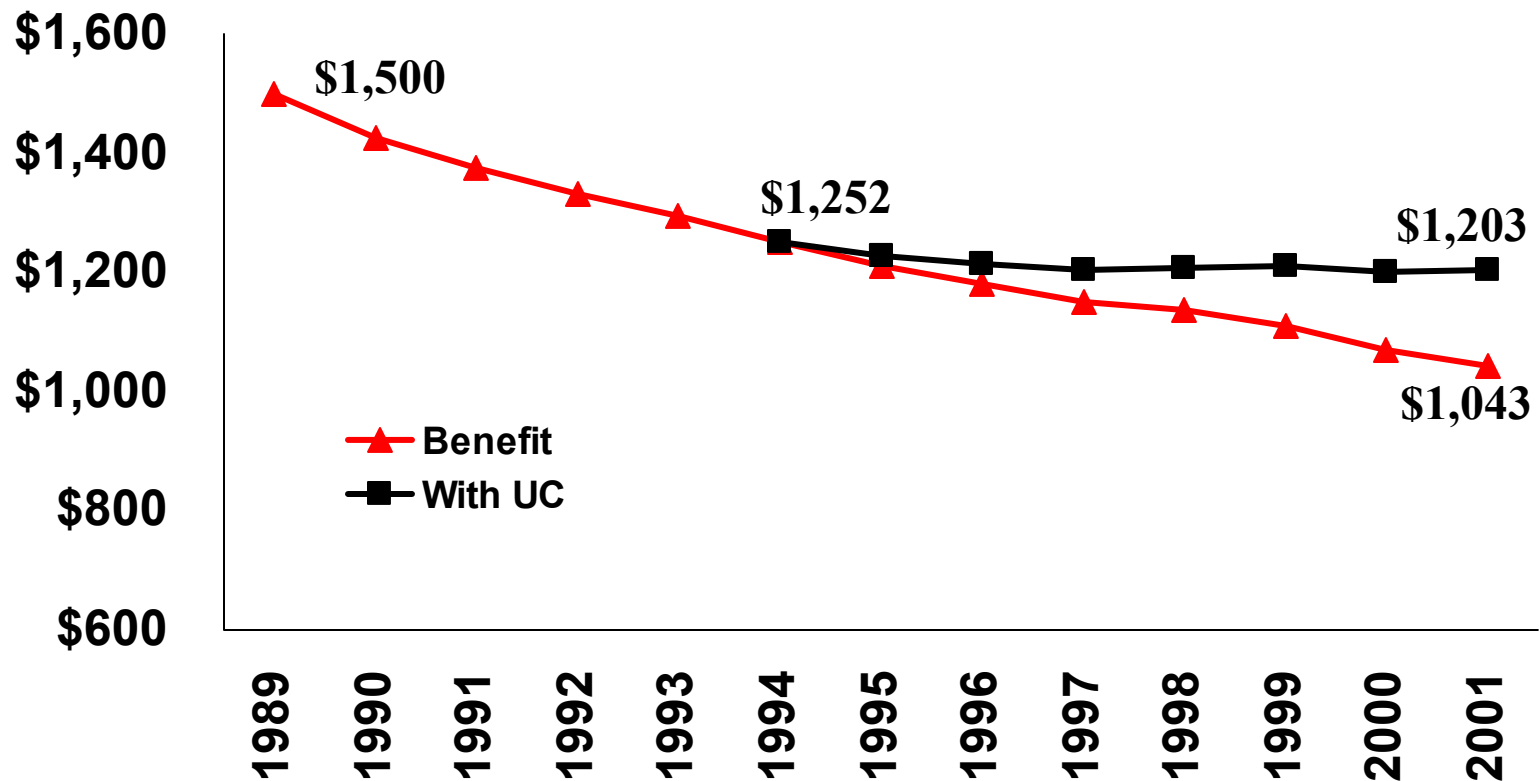
COLA Status by Years Retired

PERS/TRS Plan 1



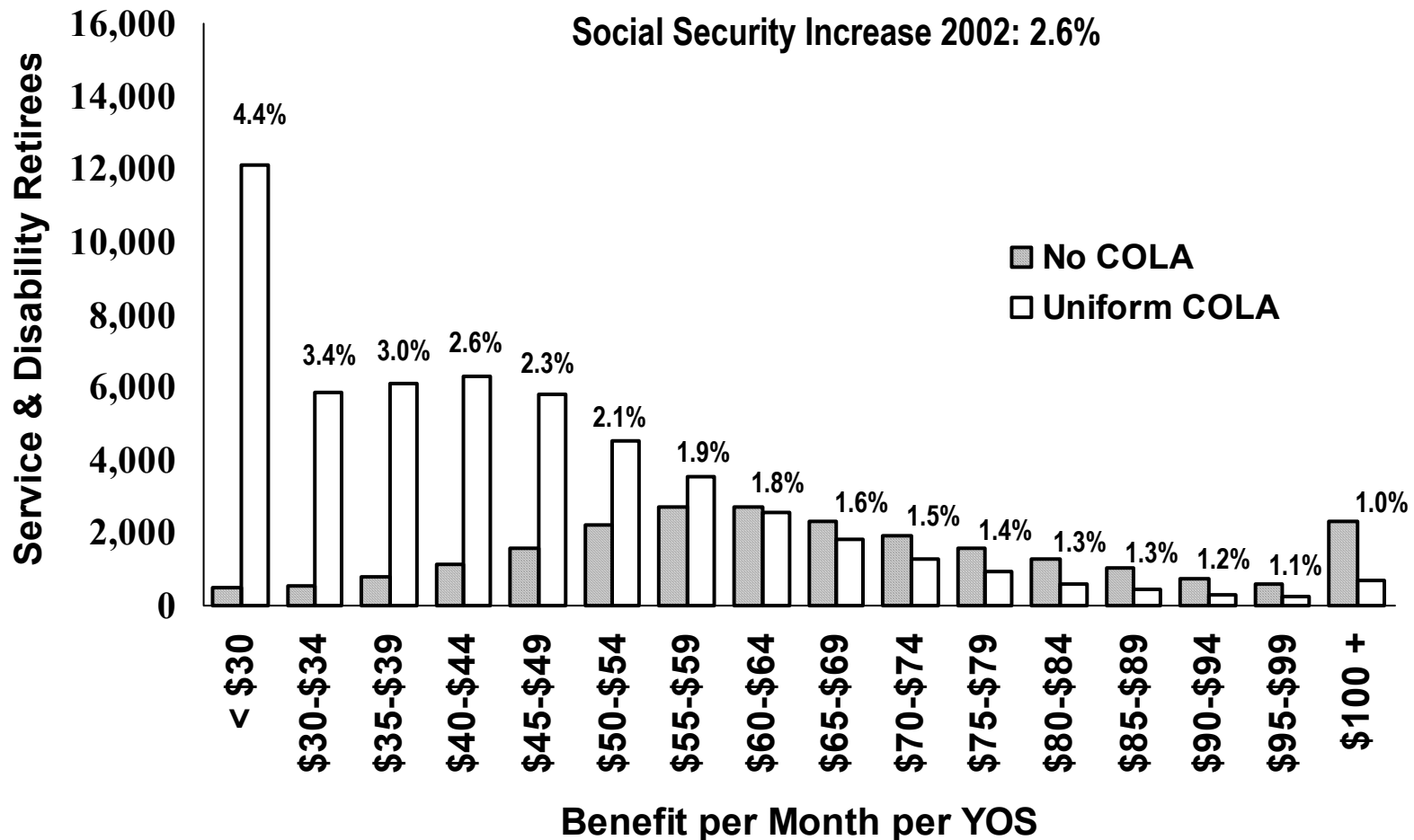
Plan 1 Benefit Purchasing Power

With and Without Uniform COLA



Uniform COLA % Increase

PERS/TRS 1 by Benefit per month per YOS -- 7/1/01

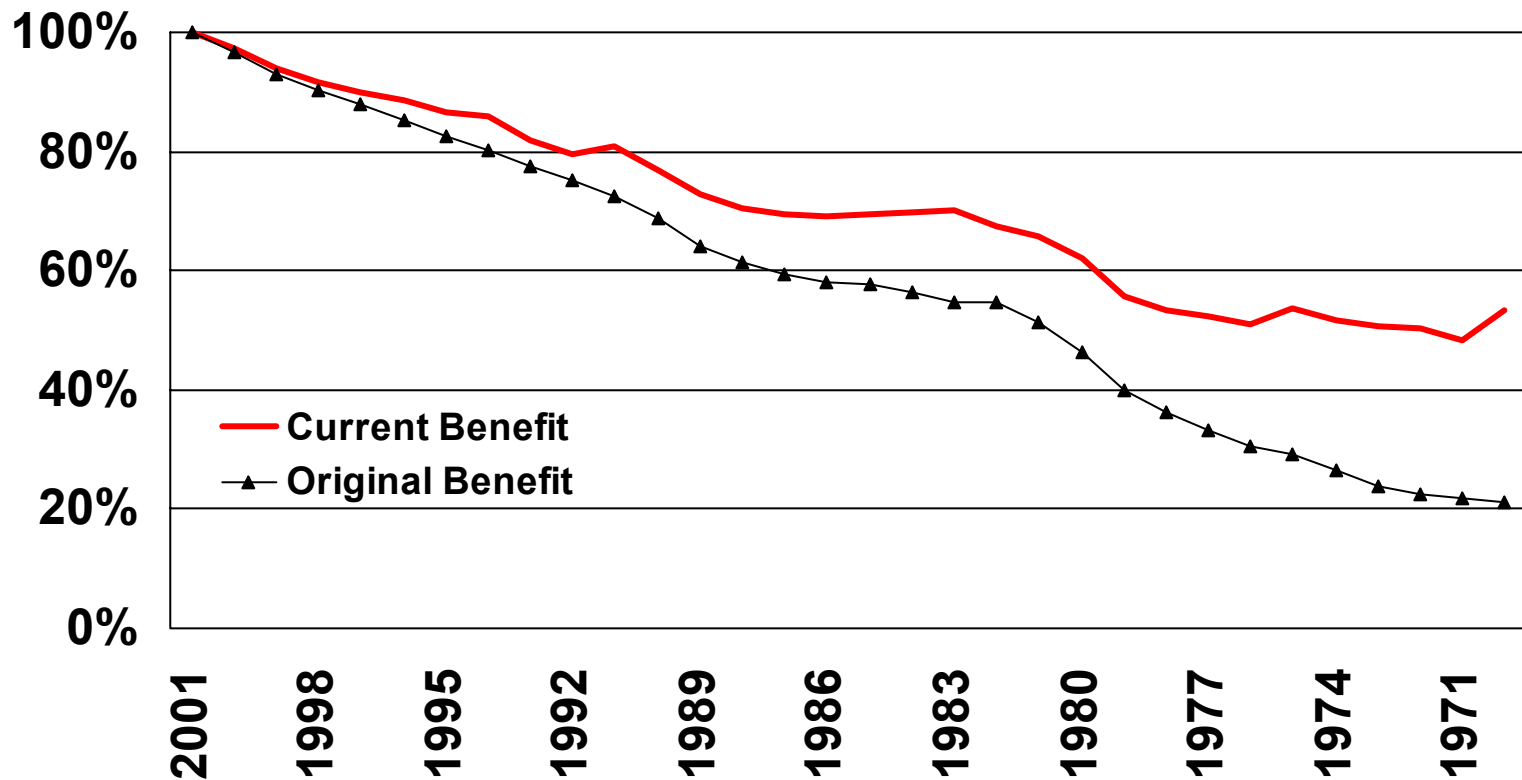


Incremental Cost of the Uniform and Minimum COLA

1995	\$8,017,053
1996	\$8,358,648
1997	\$8,996,737
1998	\$9,222,350
1999	\$11,208,033
2000	\$16,056,882
2001	\$16,761,587

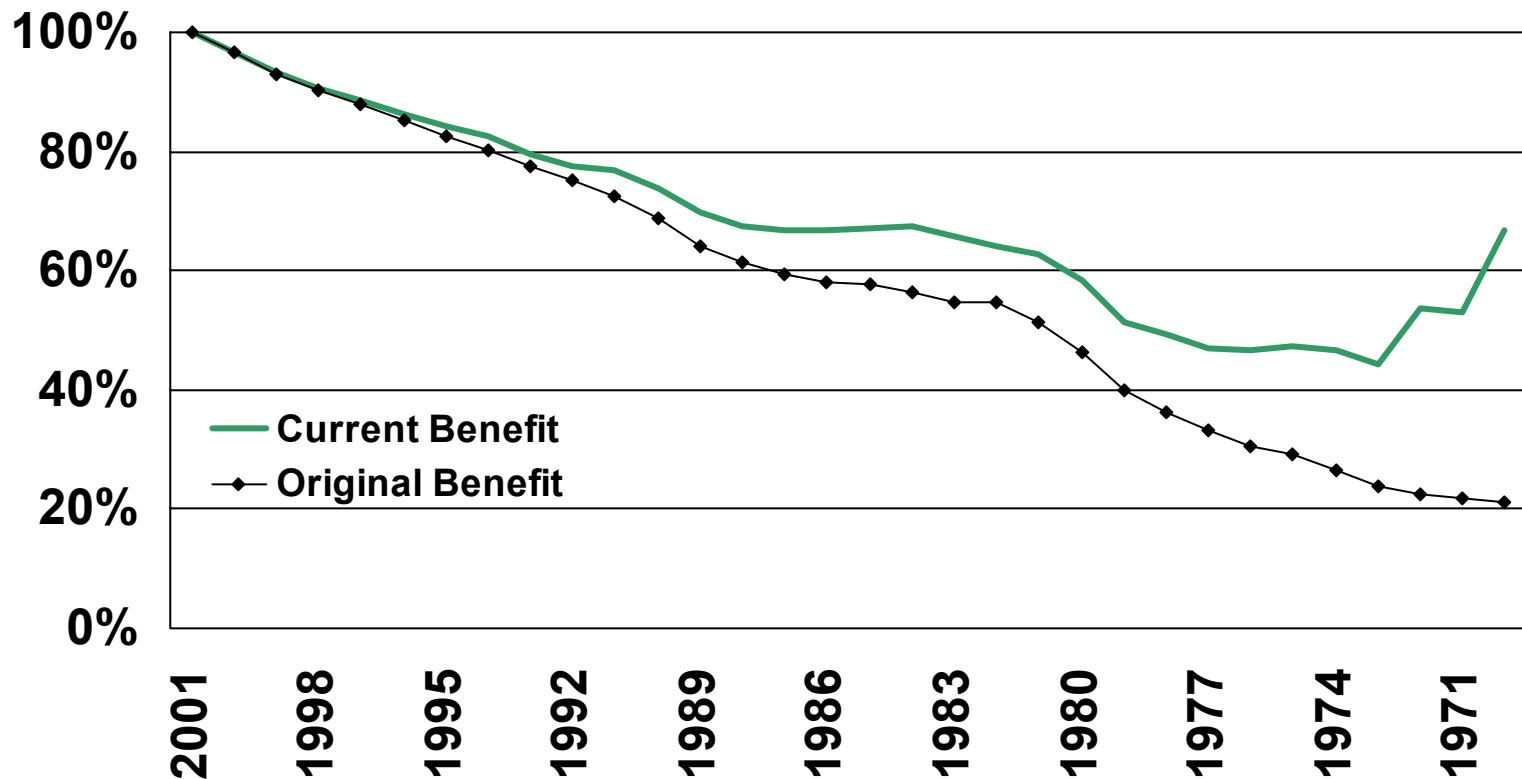
% of Original Purchasing Power

PERS 1 Service Retirees



% of Original Purchasing Power

TRS 1 Service Retirees



COLA Policy

PERS/TRS 1

- No COLA
- Periodic adjustments
- Annual Uniform Increases from age 66

Plan 2

- Retirement at age 65 as the price for receiving a 3% COLA

Plan 3 Contribution Rates

Background:

Currently, members of the Public Employees, School Employees, and Teachers Retirement System Plans 3 may only change their initial contribution rate election if they change employers. A recent ruling from the Internal Revenue Service has approved the changing of member contributions in an annual window.

Committee Activity:

Presentation:

December 4, 2002, Full Committee Meeting

Proposal Approved:

December 4, 2002, Full Committee Meeting

Recommendation to Legislature:

Provide members of the Teachers' Retirement System (TRS) Plan 3, the School Employees' Retirement System (SERS) Plan 3, and the Public Employees' Retirement System (PERS) Plan 3 with an annual window in which they could change their member contribution rate to any of the rate options set in statute.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Plan 3 Contribution Rates

Issue Summary

This bill will provide Plan 3 members of state retirement systems with some flexibility to adjust their retirement contributions in response to changes in their individual financial circumstances or retirement plans. Currently, members may only change their contribution rate if they change employers.

The bill will provide members of the Teachers' Retirement System (TRS) Plan 3, the School Employees' Retirement System (SERS) Plan 3, and the Public Employees' Retirement System (PERS) Plan 3 with an annual window in which they could change their member contribution rate to any of the rate options set in statute or adopted by the Employee Retirement Benefits Board (ERBB). The first rate change window would be in January 2004. The bill also adds three contribution rate options (options D, E and F) that were adopted by the ERBB.

Fiscal Impact (*Administration*):

\$20,500

1 AN ACT Relating to public employees', teachers', and school
2 employees' retirement systems plan 3 member contribution rates; and
3 amending RCW 41.34.040.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 41.34.040 and 2000 c 247 s 403 are each amended to
6 read as follows:

7 (1) A member shall contribute from his or her compensation
8 according to one of the following rate structures in addition to the
9 mandatory minimum five percent:

<u>Option A</u>	<u>Contribution Rate</u>
All Ages	((5.0%)) <u>0.0%</u> fixed
<u>Option B</u>	
Up to Age 35	((5.0%)) <u>0.0%</u>
Age 35 to 44	((6.0%)) <u>1.0%</u>
Age 45 and above	((7.5%)) <u>2.5%</u>
<u>Option C</u>	
Up to Age 35	((6.0%)) <u>1.0%</u>
Age 35 to 44	((7.5%)) <u>2.5%</u>
Age 45 and above	((8.5%)) <u>3.5%</u>

1
2
3
4
5
6
7
8
9
0
1
2
3
4
5
6
7
8
9
0
1
2
3
4
5
6
7
8
9
0
1
2
3
4
5
6
7
8
9
0
1
2
3
4
5
6
7
8
9

2.0%

3
4

5.0%

5
6

10.0%

8
9
0
1
2

3
4
5
6
7
8
9

20
21
22
23
24
25

26
27
28
29
30
31

2
3
4
5
6

37
38

1 (5) Contributions shall begin the first day of the pay cycle in
2 which the rate option is made, or the first day of the pay cycle in
3 which the end of the ninety-day period occurs.

--- END ---

Post-retirement Employment

Background:

ESSB 5937, the retire-rehire bill, took effect on July 1, 2001. This bill allowed TRS 1 and PERS 1 retirees to return to work in eligible positions for 1,500 hours per year before having their benefits suspended. Formerly TRS retirees were allowed to return to work for a maximum of 840 hours, and PERS retirees for 5 months before their benefits were suspended. This legislation was meant to address the critical shortage of experienced teachers and public employees with skills in high demand.

This legislation required the Office of the State Actuary (OSA) to study the fiscal and policy impacts of the bill and report its findings to the Joint Committee on Pension Policy (JCPP) by July 1, 2003. The JCPP is then required to report these findings to the fiscal committees of the Legislature no later than October 1, 2003. If OSA determines this act has resulted in increased costs for the retirement funds, the JCPP report shall include a proposal to charge those who employ retirees for the prospective costs.

Committee Activity:

Presentation:

November 13, 2002, Full Committee Meeting

Recommendation to Legislature:

None.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov



Post-retirement Employment

Robert Wm. Baker
Senior Research Analyst

Joint Committee on Pension Policy
November 13, 2002

5937 Intent

Attract retirees back to work in order to address...

- Worker retention problems
- Critical shortage of...
 - Experienced teachers
 - Employees with skills in high demand

ESSB 5937

- PERS 1, TRS 1
 - Retiree may work 1,500 hours in an eligible position before suspension of their retirement benefit
- PERS 2/3, TRS 2/3, SERS 2/3
 - Retiree may work 867 hours in an eligible position before suspension of their retirement benefit

Does 5937 / Retire-Rehire...

- ... induce plan members to retire earlier than normal and thus incur additional costs to the plans?
- ... help alleviate shortages?

Section 7

- No later than July 1, 2003, the state actuary shall prepare a report for the joint committee on pension policy regarding the fiscal and policy impacts of this act.

Section 7 *(cont.)*

- The joint committee... shall report to the legislative fiscal committees no later than October 1, 2003, on any proposed changes or improvements to this act.

Section 7 *(cont.)*

- If OSA determines this act has resulted in increased costs for the retirement funds, the JCPP report shall include a proposal to charge those who employ retirees for the prospective costs.

DRS-OSA Reporting Agreement

- DRS to supply a quarterly file of all reemployed PERS 1 and TRS 1 retirees
 - Normal service retirement, portability retirement, or disability retirement
 - Member has, or has had, an open reemployment period within the last 15 months of the reporting end date.

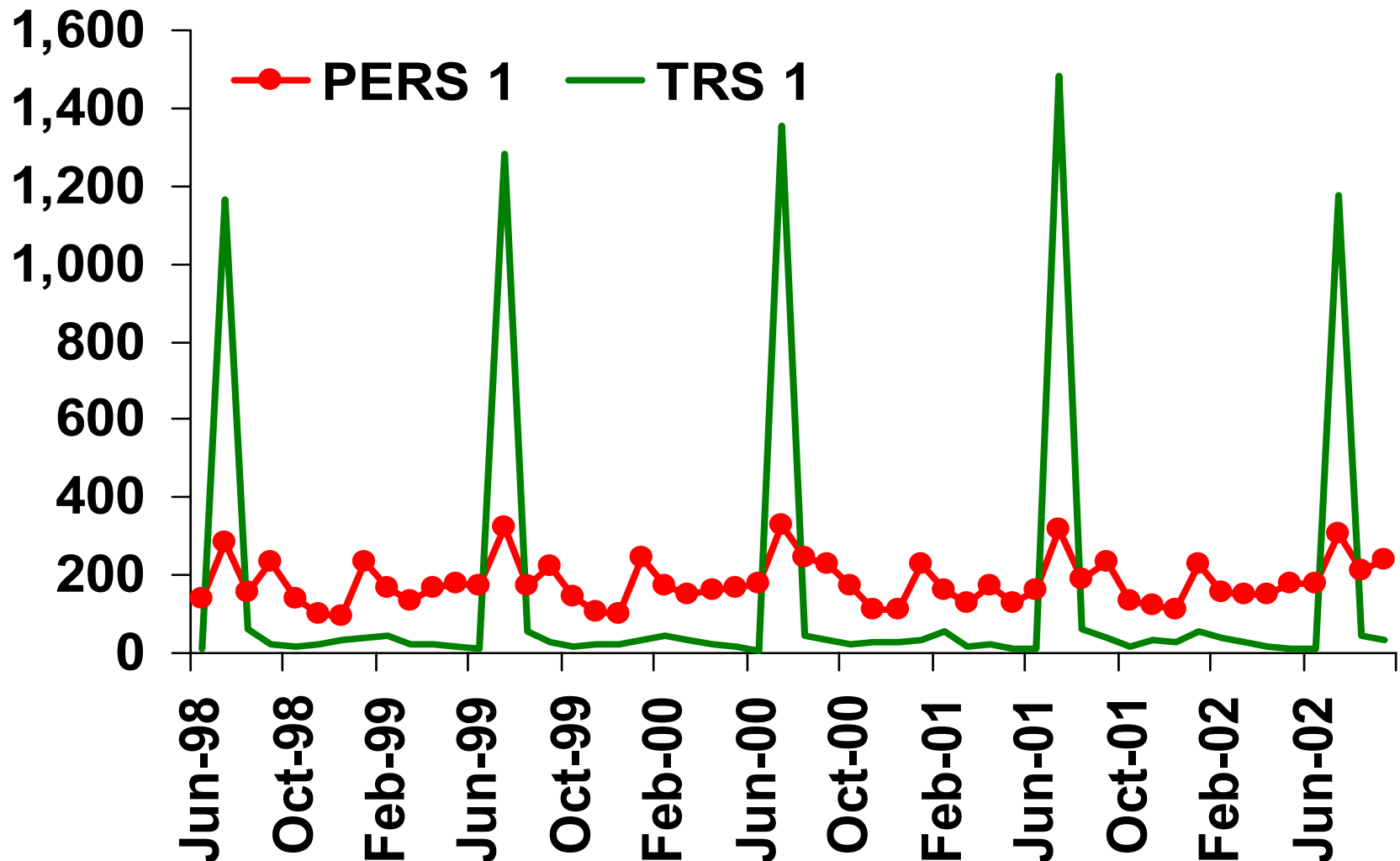
Data

- Count by System/Plan
- Average
 - Hours
 - Salary
 - Cash-out
 - Total Benefit
- Teacher / Administrator / Other

Data *[cont.]*

- Retirement Type
- Years Retired
- Employer
- Age
- Elapsed Months
- Eligibility

New PERS 1 & TRS 1 Retirees



Retirement Disincentives

- No guarantee of rehire
- Weak labor market
- High health-care inflation
- Recent gains
 - Automatic COLA
 - Reduced class size

Rehire Activity Relative to July 1, 2001

Retired	Rehired	TRS	PERS
Before	Before	1,281	711
Before	After	1,746	618
After	After	700	293
Total		3,727	1,622

Rehire Average Age Relative to July 1, 2001

Retired	Rehired	TRS 1	PERS 1
Before	Before	57.3	59.0
Before	After	56.9	57.2
After	After	56.9	57.7

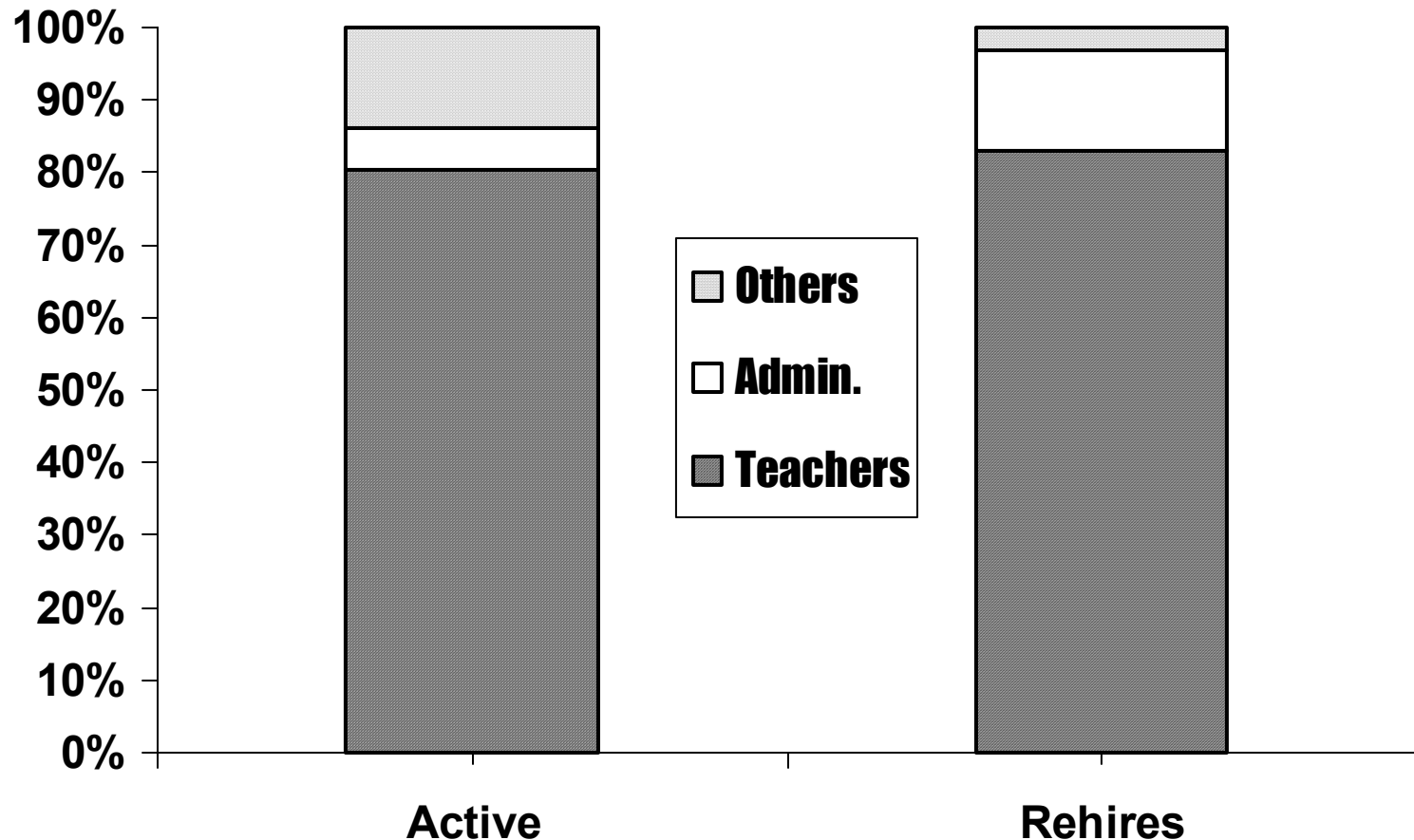
Rehire Average Years of Service Relative to July 1, 2001

Retired	Rehired	TRS 1	PERS 1
Before	Before	29.2	25.6
Before	After	29.0	26.1
After	After	29.2	28.7

Rehire Average Final Comp. Relative to July 1, 2001

Retired	Rehired	TRS 1	PERS 1
Before	Before	\$4,252	\$3,539
Before	After	\$4,403	\$3,841
After	After	\$5,311	\$4,686

Occupational Share of TRS Actives and Rehires



Examples

	Teacher	Administrator
Retirement Age	57	57
YOS	34	33
AFC	\$63,006	\$99,866
Raw Benefit	\$37,804	\$59,919
Actual Benefit	\$25,482	\$58,166
Hours	1,497	1,500
Salary	\$60,214	\$77,389
Salary+Benefit	\$85,696	\$135,555

Advertising

Election 2002

Be an informed voter. Learn more about this year's ballot initiatives and races.

Directions to the largest number of **NEW HOMES**

A Service of The Seattle Times Company

seattletimes.com[NWclassifieds](#)[NWsc](#)

[:: Home d](#)
[:: Contact](#)
[:: Search :](#)

HOME[Site index](#)**Web archive**

- [Help](#)
- [Other searches](#)



Sports: Saturday, August 10, 2002

High School Sports**Left in limbo, Hawk leaves Enumclaw**

By Seattle Times staff

ENUMCLAW — When Bill **Hawk** retired from teaching at **Enumclaw** High School in July, he hoped the school district where he spent 32 years would bring him back to coach boys basketball.

☐ [E-mail this article](#)☐ [Print this article](#)

But after learning he wouldn't be brought back as an English teacher under the state's new retire-rehire plan, **Hawk**, 54, accepted a job as boys basketball coach at Battle Ground High School, near Vancouver.

Thus ends a reign during which **Enumclaw** was one of the most successful basketball programs in the state. The Hornets compiled a record of 286-98 during Hawk's 15 years as head coach. They appeared in eight state tournaments — they finished third in the Class 4A tournament last March. They have won the past two South Puget Sound League North Division titles.

Hawk replaced Gary Radliff, who coached **Enumclaw** for 25 years.

At Battle Ground, **Hawk** will follow an icon. He replaces Butch Blue, who coached the Tigers for 26 years before stepping down to become the school's athletic director. Blue's record was 401-198, including a state title in 1990 and 10 league championships.

Hawk believed his 32 years of teaching in the **Enumclaw** School District and the success of the basketball program would enhance his chances for rehiring. Under the retire-rehire program, teachers can receive their pension and also return to the classroom.

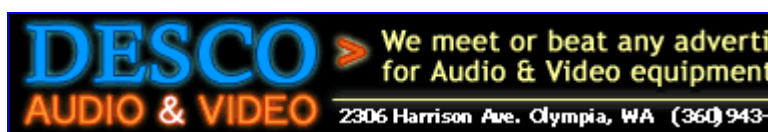
But **Hawk**, who said he received positive reviews for his classroom work, was told by **Enumclaw** principal Terry Parker that he wouldn't be brought back. Later in the process, **Hawk** said there was an offer, but it came with some conditions under which **Hawk** did not want to work.

Hawk turned in his keys on Thursday.

Read al
 races at
[King Co](#)
 and [Sno](#)
[County](#).

Learn a
 this yea
[initiative](#)
[referenc](#)

Copyright © 2002 The Seattle Times Company



Customer Care / News / Features / Special Sections / Entertainment / Classifieds / Cars / Homes / Jobs / Personal



52°

[Forecast](#)

[News](#)

[South Sound](#)

[Communities](#)

[Northwest](#)

[Business](#)

[Sports](#)

[Opinion](#)

[Paid](#)

[Obituaries](#)

[Corrections](#)

[Features](#)

[Living](#)

[Special](#)

[Sections](#)

[Weekend](#)

[Movie](#)

[Listings](#)

[Outdoors](#)

[Travel](#)

[Technology](#)

[Photo Gallery](#)

[Horoscope](#)

For The
Record

[Death](#)

[Notices](#)

[Births](#)

[Lottery](#)

[Crime Report](#)

[Commuter](#)

[Watch](#)

Past

Editions:

Date

[Marketplace](#)

[Cars](#)

[Homes](#)

The Olympian, Olympia Washington

Thursday, August 29, 2002

[South Sound](#)

News

Go

[Email this story](#) | [Printable version](#)

Carthum back at helm at Griffin

ALMA D. SHARPE THE OLYMPIAN

OLYMPIA -- Harry Carthum's goodbye to the Griffin School District lasted just a few weeks, as he retook the superintendent's job this month under the state's new "retire-rehire" law.

The law allows some education retirees to work full time while collecting a pension.

Carthum, 64, was one of four applicants for his old job. Griffin School Board officials negotiated a contract with him before interviewing the other three.

"We sent them a letter and explained to them what the board had done and thanked them for their application," board Chairman Michael Welter said Wednesday.

Carthum will work 214 days per year, five fewer than his previous contract with the district, in order to not go over the maximum 1,500 hours required by the law. His salary will be \$98,128. His contract is for one year, but it may be renewed.

Best fit

It was easy to determine Carthum would be the best fit for the job given his experience and ability to bring continuity to the district, Welter said.

"Clearly, the relationship the district has with Dr. Carthum is very positive and we appreciated the leadership he provided to the district," Welter said.

"Without a doubt, the board felt this decision was in the best interest of the district and the community."

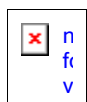
Twenty-five retirees have been rehired under the law for jobs this fall in the North Thurston, Olympia and Tumwater schools.

Some have argued state legislators passed the "retire-rehire" law in order to help districts deal with a shortage of teachers in specific areas. But under the law, everyone in the Teachers Retirement System Plan 1, the state's plan for teachers and other educators, has the opportunity to draw pension payments while working full time.



[Apartments](#)
[New Homes](#)
[Jobs](#)
[Personals](#)
[Classifieds](#)
[Coupons](#)
[Display Ads](#)
[Auto News](#)
[ParentWise](#)
[Home](#)
[Furnishings](#)

[Customer Care](#)
[Subscribe](#)
[All Forms](#)
[Place Ad](#)
[Job Openings](#)
[Contact Us](#)
[Circulation](#)
[Newsroom](#)
[Advertising](#)
[Online](#)
[Management](#)
[Read for Life](#)



[News for
your wireless
device](#)

Carthum has contributed to the system for 32 years. Pension payments under this plan are calculated to be up to 60 percent of the employee's final average annual salary. Carthum's last salary was in the mid-\$90,000s.

He said he's excited about returning to work.

"At my advanced age, I'm as pumped now looking forward to seeing the kids get off the bus next Wednesday as I was 30-some years ago," he said.

Asked how long he wished to work for the district, since his contract is renewable, he said: "As long as I'm healthy, can do the job and somebody wants to hire me."

In addition to his 32 years in education in Washington, Carthum spent three years working for the state in other roles. Those three years showed him he preferred working in schools, he said.

"I missed the excitement that happens every year at this time."

Alma D. Sharpe covers education for The Olympian. She can be reached at 360-754-4226 or asharpe@olympia.gannett.com.

©2002 The Olympian

Return to [South Sound](#) section

Daily Sections :

more Local News ▼



©2002 [The Olympian](#). Use of this site signifies your agreement to the [terms of service](#).



Gannett



USA
Today



Gannett
Foundation



Read for
Life

Public Safety Benefits

Background:

Enforcement officials of certain state agencies and other Public Employees Retirement System (PERS) members working in hazardous occupations have supported changes to the eligibility criteria for Law Enforcement Officers' and Fire Fighters' System (LEOFF) Plan 2 membership. These groups include:

Department of Fish and Wildlife, Department of Natural Resources, State Parks and Recreation Commission, Department of Social and Health Services, State Gambling Commission, State Lottery Commission, State Utilities and Transportation Commission, State Liquor Control Board, State Department of Correction, and Public Utility District journeyman outside electrical workers.

Discussions during the 2002 interim included proposals that would provide supplemental benefits within PERS, instead of moving PERS members into LEOFF.

Committee Activity:

Presentation:

June 19, 2002, Full Committee Meeting

July 10, 2002, Full Committee Meeting

Recommendation to Legislature:

None.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov



Joint Committee on Pension Policy

Public Safety

November 2002

Prepared by: David Pringle

Office of the State Actuary
P.O. Box 40914, Olympia, WA 98504-0914
360-753-9144 – actuary_st@leg.wa.gov

Study Mandate:

On December 10, 2001, the Joint Committee on Pension Policy adopted the following motion:

The Joint Committee on Pension Policy moves that the issue of providing additional public safety benefits to certain members of the Public Employees' Retirement System plans 2 and 3 be studied during the 2002 interim.

The study shall examine the creation of public safety benefits paid for by included employees and employers for periods of service in eligible positions. The study shall also examine the eligibility criteria for both entry into the Law Enforcement Officers' and Fire Fighters' plan 2 and for a public safety benefit.

The State Actuary shall report the results of the study to the JCPP at the May 2002 meeting of the Committee.

Issues:

- Is there an identifiable group of "public safety" workers in PERS?
- What criteria can be used to distinguish them from the rest of PERS membership?
- What are the needs of public safety workers, and what type of benefit addresses those needs?
- How much should "public safety" members and/or employers pay for additional benefits?

Background:

1. Benefits in PERS 2/3 and LEOFF 2
2. Membership criteria in PERS 2/3 and LEOFF 2
3. Comparison of groups who have sought LEOFF membership to criteria

1. Benefits in PERS 2/3 and LEOFF 2

The Public Employees' Retirement System, plans 2/3 provide for full retirement benefits at age 65. Early retirement is available beginning at age 55 with an actuarial reduction from 65, and members with 30 years of service may early retire with a 3 percent per year reduction factor.

The Law Enforcement Officers' and Fire Fighters' Retirement System, plan 2 provides for full retirement benefits at age 53. Members may retire at age 50 with an actuarial reduction from 53, however a 3 percent per year early retirement reduction factor is available for early retirees with twenty years of service beginning at age 50.

Membership in the Law Enforcement Officers' and Fire Fighters' Retirement System is restricted by criteria established by the legislature, including some specific exclusion of members by several portions of statute. The membership criteria of each of the PERS plans 2/3 and LEOFF plan 2 are discussed in further detail below.

Why do police and fire fighters often have different benefits than other groups of public employees? Many groups of PERS employees argue that their jobs share some characteristics with police and fire fighter employees, and that they should be able to retire at similar ages to LEOFF members, rather than the age of other public employees in PERS whose jobs do not have those traits.

A separate system or sets of benefits for police officers and fire fighters is common throughout the United States. Historically police and full-time fire fighters began to receive pension coverage from large city employers in the early 1900's, and by about 1910 most were covered. In comparison, it was twenty years or more later before nonuniform employees began to be covered in significant numbers by similar employers. From their very beginning, the police and fire plans provided for retirement at lower ages and with relatively higher benefits.

Lower retirement ages are the major characteristic of retirement systems for uniformed personnel (i.e., military, police, fire) that differ from general public employee plans. Retirement after 20 or 25 years of service, and often more generous disability and death benefits are typical. The bases of this difference may be one or all of the following:

- Members may be unable to perform all of the duties of their job as long as those in other types of employment. The physical abilities necessary to perform those activities required by the employment diminish as a person ages.
- The Constant potential of physical danger and mental anxiety reduce the effectiveness of persons over time.
- Earlier retirement is part of their traditional benefits package.
- The public, not just the employer, relies on their ability to do the job.
- Importance of public perception of a vigorous and capable front-line police/fire force.

Certainly these assumptions are arguable but, nevertheless, may contain elements of truth.

2. Membership criteria in PERS 2/3 and LEOFF 2

The Public Employees' Retirement System plans 2/3 provide the broadest eligibility rules of the Washington State retirement system plans. All regularly compensated employees and appointed and elected officials of included employers first employed on or after October 1, 1977 are members of PERS plan 2/3 unless they fall into the specific exceptions from membership listed in RCW 41.40.023.

In effect, if employees work enough to meet the requirements eligibility of five months of 70 or more hours, are not members of another Washington State or local plan, and who do not fall into one of the narrow categories in RCW 41.40.023's list, then they are in PERS 2/3.

The Law Enforcement Officers' and Fire Fighters' Retirement System, plan 2 in contrast to PERS 2/3 is tightly limited to specific employers and only certain full-time employees of those employers.

From October 1, 1977 through December 31, 1993, LEOFF 2 membership was limited to persons whose employers were "the legislative authority of any city, town, county, or district or the elected official of any municipal corporation that employs any law enforcement officer and/or fire fighter." RCW 41.26.030 (2)

Membership was further limited to those employed as:

- a. fire fighters serving in a full time, fully compensated position which required passing a civil service examination; and
- b. law enforcement officers who were either commissioned and employed in a full time, fully compensated position to enforce the criminal laws of the state or successfully completed a civil service examination for deputy sheriff or a similar position.

On January 1, 1994, membership in LEOFF 2 as it pertains to law enforcement officers was expanded to include those employed by a "general authority law enforcement agency." This removed the limitation of LEOFF membership to political subdivisions of the state. Membership was now open to any agency of a political subdivision or state agency other than the State Patrol, if it has

"a primary function to detect and apprehend persons committing infractions or violating the traffic or criminal laws in general." RCW 41.26.030 (32)

With this inclusion, members of the following law enforcement departments prospectively became members of LEOFF 2:

Central Washington University	Port of Pasco
Eastern Washington University	University of Washington
Evergreen State College	Washington State University
Port of Seattle	Western Washington University

"Limited authority law enforcement agencies" are not included in LEOFF 2 membership. They are described in statute as those having among other roles, the function of apprehending or detecting of persons who committed infractions or violations of traffic or criminal laws related to their subject areas. The following agencies are specifically named in RCW 41.26.030 (32) as examples of such agencies:

Department of Natural Resources	Dept. of Social and Health Services
State Gambling Commission	State Lottery Commission
State Parks and Rec Commission	Utilities and Trans. Commission
State Liquor Control Board	State Department of Corrections

The 1994 expansion of the definition of "employer" included only "the governing body of any other general authority law enforcement agency." It did not expand the definition of "employer" for fire fighting agencies.

In 1996, the definition of employer for firefighters was amended to include the Washington State University fire department.

In the 2000 Legislative session, the retirement age in LEOFF 2 was reduced from age 55 to age 53. A three percent per year early retirement reduction factor was also introduced for members at age 50 with 20 years of service. In the 2001 Legislative session, the LEOFF plan 2 disability age was reduced from 55 to 53 to match the reduction in the retirement age made in 2000.

In the 2002 Legislative session the enforcement officers of the Department of Fish and Wildlife were given general law enforcement authority and the agency was made a general authority law enforcement agency, however like the Washington State Patrol, the enforcement officers were specifically excluded from participation in LEOFF 2.

3. Comparison of groups who have sought LEOFF membership to criteria

Each year different groups of PERS members contact the legislature about becoming members of LEOFF plan 2. While current statutes are clear about who is eligible for membership in LEOFF plan 2 and who is not, they provide little supporting policy to guide decisions about the membership of other groups. One likely motivation of such PERS member inquiries is the difference between the normal retirement ages in PERS, 65, and LEOFF plan 2, 53. If this is among the most important reasons that groups seek to move from PERS to LEOFF plan 2, the creation of a "public safety" category within PERS plans 2/3 might be an intermediate alternative to accomplish the goal of a lower retirement age.

As discussed in the background provided earlier in this report, both historical events and public expectations about police officers and fire fighters provide some information about why the benefits for some uniformed public safety personnel are different than those provided to other public employees.

Analysis:

1. Who are public safety workers?
 - a. Is a public safety category or plan needed?
 - b. Could a new definition be crafted to identify the group?
 - c. Can criteria be used to qualify for a public safety PERS category?
 - d. Alternates to criteria
2. What changes might address the conditions of public safety workers?
3. How should prior service by public safety workers be treated?

4. What are the costs related to moving groups into LEOFF 2 or a public safety plan?
5. What are some other states approaches to public safety benefits?
6. Possible approaches

1. Who are public safety workers?

While the groups generally identified as "limited authority law enforcement" and similar types of employees who have in the past argued for inclusion in LEOFF plan 2 might be a starting point in considering as candidates for a public safety category, what employee characteristics are important and who certain employment traits might implicate are part of the JCPP study mandate.

a. Is a public safety category or plan needed?

An enhanced tier of benefits within PERS plan 2/3 or a separate public safety plan presumably would provide benefits for the included groups to better fulfill the objectives of the Washington State Retirement Systems.

The policy objectives the Washington State Retirement Systems are infrequently reviewed. The Joint Committee on Pension Policy reviewed a summary of the objectives during the 1993 Interim. Policies to be observed in making changes to current plans included:

- Sufficient income after leaving workforce should be from a combination of Social Security, retirement benefits, and employee savings.
- Employees must take responsibility for insuring they have sufficient income after retirement.
- Retirement benefits are intended to provide income after leaving the workforce.
- Employees who vest and leave should be provided reasonable value toward their ultimate retirement for their length of service.
- Retirees should have flexibility in the form and timing of benefits.
- Plan should be as neutral as possible regarding employees' changing careers or employers, keeping employees in stressful jobs, and neither encouraging or discouraging early retirement.

With the objectives as identified by the JCPP in 1993, or as they may be refined, public safety employees should in some way not be served by PERS plan 2/3 membership in comparison to other plan members.

The notion of creating different benefits for public safety workers may contain several related components or assumptions. One is that there is a group of workers that by some method can be selected for inclusion from the general group of PERS plan 2/3 employees. Another is that there is a reason or reasons that these selected workers should have a lower retirement age - this could be the same for all public safety workers, or even different for different types of employees who might be included.

Among the most common reasons put forth is that public safety jobs are more dangerous, and that employees cannot continue to perform their required tasks at older ages.

- ***Do public safety jobs have distinct characteristics - danger, stress, or others?***

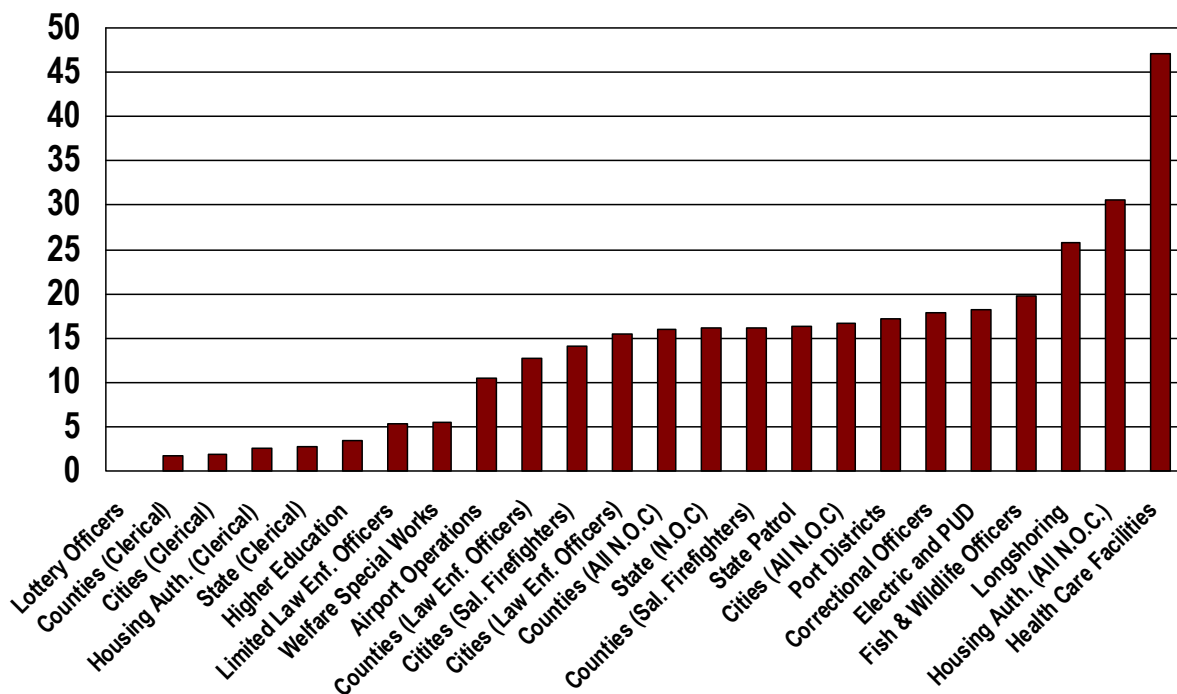
Danger

That some employees are exposed to higher degrees of danger or stress are among the most common reasons put forth for inclusion in public safety-type plans. What makes a job dangerous? One indication that a job is dangerous is the rate of work-related injury suffered by employees who perform that job.

Taken in total, state and local government workers suffer fewer work related injuries than those in most other major industrial categories, for example workers in the retail, wholesale, or agriculture industries¹. But unlike some individual employers or even industries, state and local government in total provides a wider range of services, and workers perform a wider variety of tasks, than perhaps any other category.

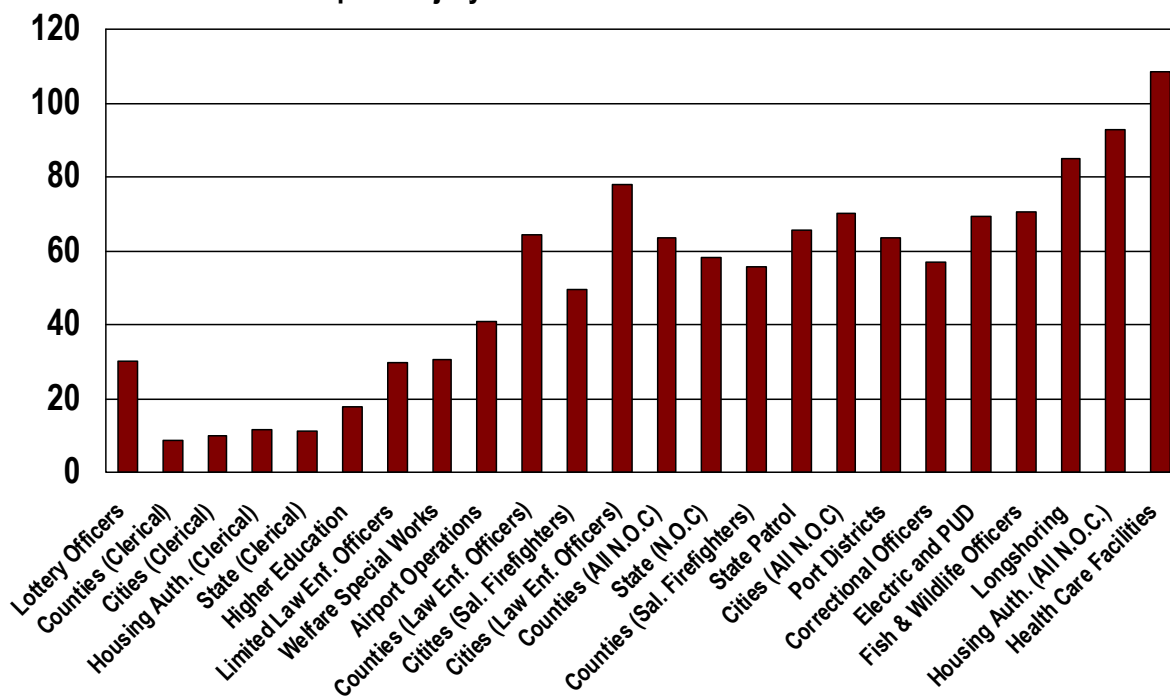
How do some jobs performed by state and local governments that are considered to have public safety characteristics compare in rates of work-related injury? The following two charts illustrate the rates of compensable, or more serious, and non-compensable State Fund claims for Labor and Industries benefits for every 100 full time employees between 1998 and 2001.

Labor and Industries State Fund Comensable Claims Per 100 FTE's – 1998-2001



¹ Washington Department of Labor and Industries, 2000 Washington Occupational Injury and Illness Summary.

Comensable and Non-Compensable State Fund Labor and Industries Workplace Injury Claims Per 100 FTE's – 1998-2001



Note: Appendix 5 contains a description of the risk sub-classes included in these charts.

This data is limited in several ways, however, and should not be interpreted as more comprehensive in nature than it is. Only State Fund claims, and not claims made to self-insured employers are included here. There are many employers, both public and private that self-insure, and might illustrate different patterns if they could be similarly compiled. These charts also do not attempt to address the types of injuries, or other related categories of information.

For one point of comparison, some of the riskier private sector state fund rates for 2001: Total case rate: logging 57.6, and roofing 51.3. Compensable rate: Logging 28.6 and roofing 20.6. If a similar rate for 2001 was experienced in these private sector sub-classes over the four years shown in the charts, logging would produce a total case rate of about 230, and a compensable rate of 114 for the four years, more than twice that of the highest risk sub-class displayed.

However, higher or lower rates of work-related injury alone do not demonstrate that a job is more hazardous for older workers than younger ones, nor demonstrate that the danger of a job is not accounted for in higher rates of pay. A description of the risk sub-classes that are used in the tables is included in the attachments at the end of this report.

Stress and Life Expectancy

Some jobs are more stressful than others. Comparison, however, is even more difficult than in the case of danger. One argument put forward is that jobs with elevated stress levels cause employee "burn out," shortening careers and creating other negative effects. Burn out is very hard to quantify, however.

Some also assert a relationship between job stress and reduced life expectancy for workers². This is not as hard to quantify, as analysis of the average age of death of workers in different categories is available from PERS and LEOFF, as well as from other systems, plans, and states. However do the demands of different jobs actually reduce the life expectancy of certain workers?

One indicator is the difference in Life Expectancy examined every 5 years in the Actuarial Experience Study for PERS, TRS, SERS, LEOFF, and WSP. A Mortality Table is developed by the Society of Actuaries using combined national data. Every 5 years, assumptions about the demographics of the Washington State systems are reviewed by the using the data generated from actual member and retiree experience here, and any necessary adjustments to the Mortality Table produced by the Society are developed to ensure the best possible accuracy of the demographic assumptions for the ensuing years.

Life Expectancy, Results of the 1995-2000 Actuarial Experience Study

Mortality Table				
Age	UP 94		RP 2000	
	Old Assumptions		New Assumptions	
	Male	Female	Male	Female
30	48.6	53.1	48.7	52.1
40	39.0	43.4	39.1	42.3
50	29.6	33.8	29.7	32.8
60	20.9	24.6	21.3	23.9
70	13.6	16.5	13.7	16.0
80	8.0	9.8	7.7	9.6
90	4.4	5.2	4.1	5.3

Based on the experience of the members and retirees, current assumptions are that there is little difference in life expectancy between PERS and LEOFF. This is illustrated in the "Age Adjustments" table above from the 1995-2000 Actuarial Experience Study.

² For example, the Public Employees' Retirement System of Idaho incorporated a policy of shortened life expectancies into public safety eligibility determination. Subsequent studies have shown, however, that little or no shortened life expectancy among the included groups has occurred.

Age Adjustments by System, Results of the 1995-2000 Actuarial Experience Study

System	Mortality Table			
	UP 94		RP 2000	
	Old Assumptions		New Assumptions	
	Male	Female	Male	Female
PERS	0	0	0	0
TRS	-3	-1	-2	-2
SERS	0	0	0	-2
LEOFF	1	1	0	0
WSP	1	1	0	0

The prior assumption was that for purposes of examining a persons mortality expectations, members of LEOFF and the Washington State Patrol should be considered to be one year older than members of PERS. The new assumption produced by a review of the actual experience of members in the Actuarial Experience Study removes that one year adjustment from the new mortality assumptions developed by the Society of Actuaries. One inference from this is lower retirement ages in LEOFF plan 2, and perhaps other jobs that share characteristics with law enforcement officers and fire fighters, may not be well founded on a basis of reduced life expectancy.

Duty to protect others from imminent harm

In some sense distinct from danger to the workers doing a particular job, some jobs have an important aspect of protecting others from imminent harm. While many jobs have elements of protecting the public from dangerous conditions, some have the added element of requiring members to place themselves in between an imminently hazardous condition and the public.

The duty to protect others from imminent harm is a difficult characteristic to quantify or identify in an objective manner, but is a policy occasionally expressed in association with public safety benefit programs³. Aggregate data on work-related injuries or deaths will not necessarily connect injuries to the unique duties to protect others from imminent harm. Such jobs could have other components that are the source of some, or even most of the workplace injuries or deaths.

- ***Are public safety jobs more difficult to perform at older ages?***

While one job may be more dangerous than another, it does not necessarily follow that the job is more dangerous for older workers than younger. If it is the dangerous nature of the job that indicates an earlier retirement age, then should the type of hazard be one that increases for older workers?

³ See as an example of law enforcement officers' duty to protect citizens from imminent danger, Schear v. Board of County Comm'rs, 101 N.M. 671, 687 P.2d 728 (1984).

One element of this question is related to the chance of occupational injury and the age of the worker. The National Institute of Occupational Safety and Health (NIOSH) studies such questions, and provides data on occupational injuries, both fatal, and those serious enough to require treatment in emergency departments.

National annual rate of fatal occupational injuries by age group, 1980–1995

Age group (years)	Distribution (%)	Rate per 100,000 workers
16 - 19	3.7	3.36
20 - 24	10.8	4.82
25 - 34	25.9	4.85
35 - 44	21.6	4.66
45 - 54	17.0	5.33
55 - 64	13.5	6.94
65+	7.4	13.62

The most frequently expressed goal of groups aspiring to membership in LEOFF or a public safety benefits category is a lower retirement age than is offered in PERS plan 2/3. Do job functions get more difficult to perform at older ages, and can this difficulty be objectively measured?

Do occupational fatality rates suggest a relationship between age and fatal occupational injury? National data of all workers from NIOSH suggests that the rate of fatal occupational injury increases slightly with age. About 65% of occupational fatalities occurred in the 25-54 age groups, though about two more fatalities per 100,000 workers were found in the 55-64 age group than the 35-44 group.

National rate of nonfatal occupational injuries treated in emergency departments, by age and sex, 1998

Age group (years)	Male Workers	Female Workers
16 - 17	6.4	3.9
18 - 19	7.8	3.9
20 - 24	6.4	3.2
25 - 34	4.5	2.3
35 - 44	2.9	1.9
45 - 54	2.0	1.5
55 - 64	1.7	1.4
65 - 74	1.4	1.3
> 75	1.2	1.3
All ages	3.4	2.0

There are many more nonfatal occupational injuries than fatal ones each year. For 1998, NIOSH found the highest rates among younger workers, with workers suffering fewer injuries than the overall average in all age groups above 35.

- ***Do older workers continue to perform the public safety duties with distinct characteristics?***

Though an employer may have dangerous tasks that must be performed by employees, do older workers continue to perform those tasks? Personnel issues associated with what duties are performed by individual employees is another element to consider in analyzing the risks faced by groups of employees.

Jobs offer different opportunities to move into supervisory or less stressful or dangerous positions during a career. If an older worker is less likely to perform those elements, then the need for a lower retirement age in those jobs might also be less.

From the characteristics that may be identified with public safety jobs, different methods could be used in statute to identify groups for inclusion in the public safety category, including creation of definitions, criteria, or description in statute of included employee groups.

b. Could a new definition be crafted to identify the group?

LEOFF plan 2 uses a three-part definition, discussed above, to identify individual members and employers for inclusion in the plan. Using the existing LEOFF 2 criteria, the Department of Retirement Systems can determine who qualifies as a law enforcement or fire fighter member and who does not. Could a set of criteria be developed to similarly identify public safety employees?

In an important sense, the problem of a definition for the public safety workers, and associated criteria is very different than for LEOFF plan 2. This is because the ideal of what constitutes a regular police officer or a full-time fire fighter is known. In contrast, we do not know what an ideal non-police or non-fire fighter public safety employee is.

One definition for public safety members was suggested to the JCPP during the 2001 legislative interim:

"Persons employed full time at any state agency, political subdivision, or unit of local government in the state of Washington directly responsible for protecting the public, including, but not limited to, correctional officers, fish and wildlife agents, park rangers, liquor control enforcement officers, and gambling commission investigation officers."

Would any definition have to also contain explicit exclusions, just like LEOFF plan 2 to remove ambiguity?

c. *Can criteria be used to qualify for a public safety PERS category?*

The creation of criteria that might be applied to PERS members to indicate inclusion in a public safety plan or category within PERS poses a particularly difficult challenge.

Some criteria that might be used include:

1. Responsibility to provide public protection of lives and property as a general duty of the job.
2. High degree of physical risk to one's own personal safety.
3. Authority and power to arrest, either limited or unlimited.
4. Passage of a civil service exam or equivalent.
5. Completion of CJTC basic law enforcement training course.
6. Authority or a requirement to carry a firearm.

Some of these criteria, such as danger, stress, and life expectancy are discussed above, and may not be useful identifiers on a statistical basis. A policy decision could be made on the importance of certain types of dangers that workers might encounter. Listing employees exposed to those dangers could form the basis for inclusion in a public safety group.

The existence of any of the criteria chosen could be made statutory requirements exclusively, or could be left to requirement by rule or employer policy. Less certainty in requirements at the legislative level would create additional uncertainty in the scope of membership and cost, however.

d. *Alternates to criteria - inclusion by statutory description of employee class, by employer, or by other existing categorizations.*

Criteria, no matter how carefully created, may not include some groups desired or inadvertently include other groups that are not intended. Interpretation of criteria, or changes in jobs performed by employees subsequent to the establishment of criteria might also add unexpected numbers of employees to a public safety benefit tier, creating unanticipated costs.

An alternative is that members could be included in the public safety category by statutory lists, as is done in several of the other states examined below. Lists could be constructed using different elements identifying particular employers, employees, and duties or qualifications.

2. What changes might address the conditions of public safety workers?

Depending on who public safety members are and what makes them eligible, different types of changes might best address their needs. In most cases both defined benefit and defined contribution approaches might be used to accomplish the changes, but would have different advantages, disadvantages, and costs depending on the approach.

Keeping in mind the policy objectives of the state retirement systems discussed above, and a lower retirement age being the main goal, the following are illustrations of some advantages and disadvantages of different approaches:

a. *Retirement at an age reduced from the standard PERS plan 2/3 ages.*

Example: a public safety PERS retirement age of 60 is created

A reduced retirement age for public safety members is arguably best supported where members cannot perform the job beyond a certain age due to danger, stress, reduced ability to protect the public or some other concerns.

As a part of PERS, however, how does such a model accommodate members who began their public safety careers at older ages or members who worked in non-public safety positions earlier in their careers but not later?

b. *Retirement after a career in a public safety position at reduced ages.*

Example: public safety employees with 25 years of public safety service may retire at age 60

This recognizes that certain public safety jobs have important age-related characteristics, but also requires earning a substantial benefit in public safety jobs in PERS plan 2/3. For example, a reduced retirement age might be available to members who have 25 or 30 years of service in public safety category PERS positions.

If additional contributions are required from employees, should employees who serve only a portion of their career in public safety positions also contribute to the public safety benefit cost?

c. *Reduced retirement age for years of service in a public safety position.*

Example: each year of public safety service reduces retirement age by 1 month

Essentially, this is an item of additional compensation. Whether a person works in a public safety position early in their career, later in their career, or for their entire career, their PERS plan 2/3 retirement age will be reduced for periods served in public safety positions.

d. *Improved early retirement reduction factor for members in public safety positions*

Example: public safety employees may retire after 25 years of service with a 3% per year reduction from the PERS 2/3 normal retirement age

Similar to the idea of allowing early retirement at a lower age after sufficient number of years in public safety positions. The use of improved early retirement reduction factors (ERRFs) could provide a somewhat smaller benefit than a reduced normal age, but perhaps could be extended to more members in more situations.

An improved ERRF was implemented by the 2000 legislature for both LEOFF plan 2 and PERS 2/3, in the later case a 3% per year ERRF was made available to members beginning at age 55 with at least 30 years of service.

e. Disability as an alternative to additional public safety retirement benefits.

An examination of disability benefits is outside the scope of this study. The connection of disability benefits to the actual inability of individuals to perform their jobs to the normal retirement age is natural, but is not a part of the plans 2/3. Within the plans 2/3 of the Washington State Retirement System disability enables one to access their earned retirement benefit with an age adjustment. The worker's compensation system, is the source of compensation for workers injured on the job, rather than the retirement benefit.

Substantial change from the earned retirement benefit for disability would involve considerations of many additional broad topics such as standards of disability, determination and appeals processes, benefit levels, coordination with other disability benefits and more.

f. Additional "bridge" benefits to account for loss of earning power between end of public safety career and PERS plan 2/3 retirement age.

If one of the goals of the Washington State Retirement Systems is to provide income after leaving the workforce, one approach could focus on the typical degree of participation in the workforce between the PERS plan 2/3 retirement age and any reduced age that might be adopted for a public safety benefit. If some workforce participation is typical during this period, then perhaps some sort of partial or "bridge" benefit between these ages might be appropriate to replace lost earning power.

3. How should prior service by public safety workers be treated?

A difficult issue associated with the creation of a public safety benefit in PERS is retroactive application. The issues are very similar to those raised in discussions of moving groups from PERS plan 2 into LEOFF plan 2.

If members are able to count only service earned after their entry into a new plan or tier towards that new plan's formula, essentially using the dual-membership approach provided for in Chapter 41.54 RCW, then those members who are nearing retirement benefit little from the change over the last portion of their careers.

On the other hand if the members are able to count past service accumulated under a lesser benefit package with lower contributions towards a higher benefit formula, then a cost for the past service develops, as may other effects. Depending on the change in the level of benefits for past years of service, the cost of the retroactive service varies. For a large change in retirement age, for example from the PERS plan 2 age of 65 to the LEOFF plan 2 age of 53, the cost for an average member has been calculated generally as follows:

Example #2: Employee transfers past PERS 2 service to LEOFF 2:

1. Employee Costs

Employee contributions had member been in LEOFF 2	\$ 79,600
Less: Employee contributions transferred from PERS 2	<u>-47,000</u>
Additional member contribution required	\$ 32,600

2. Employer Costs

Total assets required so transfer will not affect LEOFF 2 contribution rate	\$ 194,900
Employee Contributions <i>(with additional member contribution)</i>	<u>-79,600</u>
Employer Contributions had member been in LEOFF 2	\$115,300
Employer contributions transferred from PERS 2	<u>-28,100</u>
Additional employer contribution required	\$ 87,200

What policies might be considered in permitting prior service in PERS to be counted as public safety service?

- Was the member's inclusion in the public safety benefits tier optional, or mandatory to the individual employee?
- Has the nature of the job indicated for inclusion in the public safety category changed over time, if so, when did the job characteristics indicating inclusion arise?
- How will retroactive service credit affect an employer's staff overall?

Past changes in statute have taken several approaches in dealing with prior service when members were moved from PERS 2 to LEOFF 2, or PERS 2 to the Washington State Patrol Retirement System. These may serve as examples for terms of transfer to a public safety category for PERS 2/3.

In 1993 the legislature enacted ESHB 1744, adopting the general authority/limited authority law enforcement officer membership criteria in LEOFF 2. Peace officers employed by universities and port districts became law enforcement members of LEOFF, and were given the opportunity to transfer past non-LEOFF service as general authority officers from PERS. The ports and universities were required by the act to pay both the employer and state portions of the LEOFF 2 contribution rate.

Employees choosing to transfer were required to pay the difference in contributions, plus interest, that they would have made had they been in LEOFF rather than PERS for the service being transferred. Employers were required to pay the difference between the employer contributions, plus interest, plus an amount that ensured the contribution rate for other LEOFF 2 members did not increase as a result of the transfer.

In 1993 the legislature also prospectively included individuals serving as "public safety officers" in cities with populations of ten thousand or less in LEOFF plan 2. The change to RCW 41.26.030 was limited, however, to individuals whose job duties substantially involve only police and/or fire duties, and not other duties as well. There was no opportunity provided for past service credit in PERS to be moved into LEOFF.

In 1996 institutions of higher education with fully operational fire departments on January 1, 1996 were made eligible LEOFF employers for fire fighters. Similarly to the admission of the university police in 1993, members were given the opportunity to transfer eligible past service by paying the difference in contributions, plus interest, that they would have made had they been in LEOFF rather than PERS, and their employers had to pay the difference between the employer contributions, plus

interest, plus an amount that ensured the contribution rate for other LEOFF 2 members did not increase as a result of the transfer. Just as for their law enforcement members, the port or university employers pays both the employer and state portions of the LEOFF 2 contribution rate.

Most recently, the 2002 Legislature permitted certain State Patrol Officers who were Commercial Vehicle Enforcement Officers, but who went through additional training and became fully commissioned State Patrol Officers the opportunity to move past service from PERS 2 to the WSPRS. Those troopers electing to transfer service were required to pay the difference between the plans in member and employer contributions, plus interest.

4. What are the costs related to moving groups into LEOFF 2 or a public safety plan?

An important part of past discussions about inclusion of additional employees and employers in LEOFF 2 revolve around cost. The cost that might be incurred by moving a group of employees can vary on the basis of policy decisions that are made associated with the transfer, and the number of employees that are consequently able to move into LEOFF2.

Most straight forward is the number of persons that are involved in the transfer. Presumably any group that might be included in LEOFF 2, or in a new public safety group of some other type, will be of a know number of members with salaries and other characteristics that can be determined.

PERS plan 2 and LEOFF plan 2 Contribution Rates, as of July 1, 2002

Plan	PERS Plan 2	LEOFF Plan 2	Difference
Member	0.65%	4.39%	3.74%
Employer/State	1.10%	4.39%	3.29%

Contribution rates to both PERS 2 and LEOFF 2 during the 2001-03 biennium are at historically low levels. Currently the difference in employer contribution is 3.29 percent, however the difference in employee contributions (equal to the difference in employer plus state contributions) is 4.33 percent of pay between PERS 2 and LEOFF 2.

The standard contribution system for LEOFF plan 2 requires the state to make 20 percent of the total contribution funding a employee's accumulated service credit. In the event of a local government employee that moves from PERS 2 to LEOFF 2, for example, the state government would be required to make a contribution for the LEOFF 2 employee when no contribution would be required for PERS. As of July 1, 2002, that additional state contribution is 1.76 percent.

The difference in the normal cost of benefits, a term used to describe the cost of funding a year of benefits in a plan if over the long term investment returns are at the assumed rate, is a good way to compare the cost of benefits in LEOFF plan 2 and PERS plan 2. The normal cost in LEOFF 2 is about 16.4 percent, and the normal cost in PERS plan 2 is about 8.8 percent.

Employer or state bears additional "employer" cost?

Several groups that have been moved from PERS 2 to LEOFF 2 have moved under terms that required their employers to pay both the employer and state portions of the LEOFF 2 contribution. These include port districts and institutions of higher education that have law enforcement and fire fighter LEOFF plan 2 members. These circumstances are discussed along with prior service issues above.

Moving into a public safety plan

Unlike LEOFF 2, there are no fixed costs for transfer of members from PERS 2/3 into a public safety plan or tier within PERS. The cost would vary depending on the size and type of additional benefits, and for employers also by the size of the participating group.

During the 2000 legislative interim, the JCPP briefly reviewed ideas about the creation of public safety benefits at the November committee meeting. The document presented compared estimated costs of several variations of a public safety benefit.

Using a defined benefit approach, two examples of supplemental benefits providing a reduced early retirement reduction factor(ERRF) at a younger age than the rest of PERS plan 2/3 (30 years of service) were described:

1. 3% ERRF at age 55, 25 years of service - approximate 1% additional contribution rate from employer, plus 1% additional contribution rate from the employee if a member of plan 2.
2. 3% ERRF at age 55, 20 years of service - approximate 2% additional contribution rate from employer, plus 2% additional contribution rate from the employee if a member of plan 2.

Using a defined contribution approach, two examples of supplemental benefits providing an additional defined contribution that could be used to "purchase" an improved early retirement reduction factor of these amounts:

1. 3% ERRF at age 60 - Approximate additional contribution rate: 5%.
2. 3% ERRF at age 62 - Approximate additional contribution rate: 3.5%

5. What are some other states' approaches to public safety benefits?

A different approach to the retirement coverage of public employees, police and fire fighters, and specialized groups of each is taken in almost every state. In response to requests by the Joint Committee on Pension Policy to compare Washington to the approaches of other states, information on several neighboring states, Idaho and Oregon, as well several other medium-sized states with a variety of statewide pension systems is provided. This is not intended to be a comprehensive look at the approaches of all states, or all plans, but rather a description of several different ways that the issue of coverage of public safety employees is addressed.

State	Categories or Tiers	Retirement Age	Contribution EE / ER	Who determines membership?
Washington PERS LEOFF	- General - Police/Fire (narrow)	- Age 65 - Age 53	0.65%/1.10% 4.39%/4.39%	Department evaluates narrow criteria
Idaho PERS	- General - Police/Fire (broad)	- Age 65, Rule 90 - Age 60, Rule 80	5.9%/9.8% 7.2%/10.0%	Statutory list of included pub. safety groups
Oregon PERS	- General - Police/Fire (broad)	- Age 60 or 30 yrs. - Age 55 or 50+25 yrs.	6% / ~ 9.2% 6% / ~ 12.4%	Statutory list of included pub. safety groups
Nevada PERS*	- General - Police, Fire (narrow)	- Age 65 or 30 yrs. - Age 50+20 yrs. or 30 yrs.	9.4% / 9.4% 14.3% / 14.3%	Board and staff evaluate narrow criteria
Iowa PERS	- Regular - Protect. Occ. - Sheriff/Fire	- 30 yrs. - 24 yrs. - 22 yrs.	3.7% / 5.8% 5.9% / 8.9% 5.6% / 8.4%	Statutory list of included pub. safety groups
Arizona PERS	- General - Public Safety - Corrections	- Age 65+Rule 80 - 20 yrs. - 20 yrs.	2.0% / 2.0% 7.7% / 4.2% 8.5% / 1.9%	Statutory list of pub. safety groups

*Nevada PERS is exempt from Social Security.

All states deal with the issue of non-police and fire fighter public safety pension benefits. Many have attempted to establish a system of including positions within police and fire fighter plans, or in a public safety "tier" of their general public plans on the basis of the danger in serving in the positions. The determinations of dangerousness are sometimes made by the state legislatures, the state administrative agencies or boards, and sometimes both.

For example, Massachusetts places groups of employees into the "Group 4" of their public employees retirement system based solely on the life-threatening aspects of their jobs. "Group 4" contains police and fire fighters, but has grown to include corrections officers and most recently senior district attorneys. Illinois officially uses a standard of "physically dangerous position" for inclusion into public safety plans, with the determination for eligibility made by the state legislature. Recently, Illinois department of transportation highway workers were added to their public safety plans. New York has adopted an approach of many different sub-categories for public safety workers within their general public employees plan, rather than having a separate plan or inclusion in police and fire plans.

Set forth below is a more detailed look at the approaches of Idaho, Oregon, Nevada, Iowa, and Arizona. The five states provide examples of a variety of approaches by states to providing benefits to public employees generally, police and fire fighters, and other state public safety employees.

Idaho Public Employees' Retirement Systems

The Public Employees' Retirement System of Idaho (PERSI) covers both general public employees, as well as statewide public safety and police officers' and fire fighters that first became members since 1980. The intent of the PERSI public safety categories are to include positions where the nature of the work is proven to shorten life expectancy as compared to the general membership.

PERSI provides different retirement and early retirement ages for regular public employee members and "police officer/fire fighter" members, and also different contribution rates. Many "public safety" groups are included within the Idaho Police/Fire tier. For example, in 2001 the general member contributed 5.86% of pay and the police/fire member contributed 7.21% of pay. Employer rates differed by a similar margin.

Idaho Public Employee Retirement Eligibility: Retirement at age 65, early retirement at age 55. Retirement also available under a "Rule of 90."

Idaho Police/Fire "public safety" eligibility: Retirement at age 60, early retirement at age 50. Retirement also available under a "Rule of 80."

Many employees that are not police officers are given police officer status for purposes of retirement benefits in PERSI. When an employee enters or leaves a police or fire officer status position, their employer submits certification to the plan administrator regarding the change in status.

While the Idaho "police officer" includes many groups that LEOFF plan 2 does not, the definition used in PERSI for "fire fighter" appears similar to that used in Washington State. The decision on whether a position qualifies is decided by petition under the rules to the board, however in effect the Idaho system essentially requires proponents to have the legislature amend the applicable statutes to include the new positions.

Employees included under PERS Idaho police officer category	Employees included under the PERS Idaho fire fighter category
Senior administrators of the dept. of law enforcement and police services division. Commissioned state police officers Alcohol beverage control enforcement officers Brand inspectors and supervisors County Sheriffs and qualified deputy sheriffs City Police Chiefs and qualified city police officers Dept. of Fish and Game enforcement officers Senior administrators of the dept. of corrections Corrections officers and corrections officer instructors	Employees whose primary occupation is preventing and extinguishing fires The Fire Chief of a city Chief Fire Warden of a timber protective assoc. <u>NOT</u> employees with fire fighting as a secondary or occasional requirement of a position

Employees included under PERS Idaho police officer category	Employees included under the PERS Idaho fire fighter category
Probation officers, investigators, and supervisors Adjutant general and military division employees District Court magistrates and security personnel Paramedics and paramedic trainees Attorney General's and Prosecutor's investigators Retirement Board designated employees in principally "hazardous law enforcement duties."	

If an employee works part of their career in a position included within the "police officer status" category for the PERSI and part in positions in the general public employee category, their retirement age, early retirement age, and "Rule of 80-90" are calculated on the basis of the ratio of months of service in a "police officer status" position to total months of service. For example, a person with about half of their service in a police status position might end up with a retirement age of 63, an early retirement age of 53, and a "Rule of 85."

Oregon Public Employees Retirement System

Like Idaho, general Tier 2 public employees and police officers and fire fighters are part of a single retirement system. The standard defined benefits (an important qualification, as Oregon PERS offers alternative annuity benefit programs) differ depending on whether a member falls into the general or police and fire categories of membership.

Member contributions in Oregon PERS are statutorily set at 6 percent of pay, regardless of membership in the general or the police and fire plan. Depending on their employer, they may be made by the member either before or after tax, or paid in part or in full by their employer.

For employer contributions Oregon PERS calculates a blended rate based on individual employer experience and the mix of general and police and fire members they employ. On an employer share of normal cost basis employers pay about 9.2 percent for general plan members and 12.4 percent for police and fire members. Depending on accumulated surplus or debt, an amortization rate may increase or decrease that amount.

The overall contribution rate for school districts was 12.7 percent of Oregon PERS-covered employee payroll and the rate for state agencies about 9.5 percent. Broken out separately by plan and illustrating the degree of employer variation, Portland pays about 10.1 percent of pay for police and fire members and about 7.6 percent for general employees and Eugene pays about 15.2 percent for police and fire, 12.3 percent for general employees.

Oregon Tier 2 Public Employee Retirement Eligibility: Retirement at age 60 or after 30 years of service, early retirement with reduced benefits after 55 with less than 30 years.

Oregon Police/Fire "public safety" eligibility: Retirement at age 55 or 50 with 25 years of service, early retirement with reduced benefits after 50 with less than 25 years of service.

The benefits provided in Oregon for general public employees are based on a 1.67 percent of average final salary per year of service, and 2.0 percent for legislators, police officers, and fire fighters. Local jurisdictions that provide equal or better benefits to their police and fire fighters than are provided by PERS may petition the PERS board for exemption from the system⁴.

Like Idaho, there are numerous categories of employees that are included in the definitions of police officer and fire fighter for retirement purposes that do not fit traditional notions of those jobs. The following table summarizes those additional kinds of employees included in the public safety categories:

Employees included under Oregon PERS police officer category	Employees included under the Oregon PERS fire fighter category
State police officers Liquor control enforcement officers County sheriffs and deputy sheriffs City police chiefs and police officers County parole and probation officers Director of the Dept. of Corrections Dept. of Corrections institutional employees Dept. of Corrections adult parole officers State Capitol police State building police Port of Portland airport police Dept. of Agriculture livestock police Board of pub. safety standards enforcement officers Dept. of Justice investigators Lottery Commission enforcement agents Portland public school police Certain youth correctional employees Juvenile parole officers	The State Fire Marshal Deputy state fire marshals Local government employees whose duties involve fire fighting State Forestry Department wildland fire fighters

⁴ Oregon Administrative Rules, 459-030-0001, 2002, Statutory Authority Oregon Revised Statute 237.

In addition to the benefits that the "public safety employees" share with police officers and fire fighters, the police and fire officers also have additional benefits. For example, police officers and fire fighters enjoy additional duty-caused disability benefits of 50 percent of final salary instead of the benefit from the PERS regular formula. In effect this creates at least three sets of benefits within Oregon PERS - general public employee, public safety, and police and fire benefits.

Nevada Public Employees Retirement System

The Nevada Public Employees Retirement System has almost 95,000 members and beneficiaries, and incorporates most state, city, county, and school employees. Within the Nevada PERS structure there are tiers of benefits for both general public employees and for police and fire members.

None of the members of the Nevada system participate in Social Security, which is unlike Washington where most of PERS and much of LEOFF contribute to Social Security. The higher levels of both contributions and benefits provided by Nevada PERS should be compared with the other plans described here with the Social Security difference in mind.

General public employees may be in a plan wholly funded by their employers, or funded equally by employers and employees. The total contribution currently being made is 18.75 percent of pay.

Nevada Public Employee Retirement Eligibility: Retirement at any age after 30 years of service, at age 60 or after 10 years of service, or at age 65 with 5 years of service. Early retirement is available after reaching service thresholds with a 4 percent per year reduction.

Nevada Police and Fire member Retirement eligibility: Retirement at age 50 with 20 years of service or 30 years of service at any age. Early retirement is available after reaching service thresholds with a 4 percent per year reduction.

There are also several types of optional benefit systems available with different contribution schemes available for police and fire employees. Local government employers typically make the entire contribution for member service, 28.5 percent of pay, and state employers and employees typically split the contribution, 14.25 percent of pay each.

Both the general public employees and the police and fire employees benefits are calculated on a 2.5 percent of average monthly compensation per year of service basis.

Nevada's police and fire membership has become more restrictive. Membership in the police and fire plan in Nevada is now crafted narrowly, including no members who are not full-time employees principally protecting the public and for "firemen" controlling and extinguishing fires or for "police officers" enforcing the laws of the state or subdivisions.

Prior to changes in the definitions made in 1977-1979 several non-police and fire groups, such as correctional officers whose duties do not require daily contact with prisoners, were included in the Nevada Police and Fire plan. Subsequent to the change however, not only were future employees in these categories excluded from participation, but employees with prior service in these categories lost eligibility if they ever left their previously Police and Fire covered positions.

Employees included under Nevada PERS police officer category	Employees included under the Nevada PERS fire fighter category
State and local full-time police officers working for participating employers	State and local full-time fire fighters working for participating employers
Former police officers promoted after 2 years of service to related supervisory position	Former fire fighters promoted after 2 years of service to related supervisory position
A police officer with 2 years qualified service who subsequently works in eligible position for an ineligible employer.	A fire fighter with 2 years qualified service who subsequently works in eligible position for an ineligible employer.

The Nevada PERS Board and staff analyze and determine whether a particular position meets the strict requirements for coverage in the police/fire fund. A threshold requirement for police is that the position must be deemed a "peace officer" in the Nevada Revised Statutes. Similarly for firefighters, the positions must have a statutory requirement of fire suppression training. If a position meets one of these thresholds, then a subsequent 100-point analysis is performed. If 75 points are awarded from the following criteria, then the position is recommended for inclusion:

Nevada Police Evaluation Criteria:

- Specialized requirements of law enforcement: (5 points each) duties of position require carrying a weapon, successful completion of peace officer training as a condition of employment, a physical agility exam at time of hire, an annual medical examination
- Physical agility demands of law enforcement necessary for protecting the public. (20 points)
- Public protection duties. (40 points)
- Emotional stability requirements associated with public protection role. (20 points)

Nevada Fire Fighter Evaluation Criteria:

- Specialized requirements of a fire fighter: (5 points each) EMT certification, successful completion of a fire suppression training course, a physical agility exam at time of hire, an annual medical examination.
- Physical agility demands of a fire fighter necessary for front line fire fighting. (20 points)
- Public protection duties. (40 points)
- Emotional stability requirements associated with public protection role. (20 points)

The criteria reflect findings by the Nevada PERS board that continued physical capacity, emotional capacity, and public perception of these capacities are significant factors favoring enhanced benefits for police and fire personnel. Positions determined not to meet the criteria upon examination are only reevaluated by the PERS Board and staff upon a showing by an employer or an employee that there has been a material change in job duties.

Iowa Public Employees' Retirement System, and the "protection occupation" category

The Iowa Public Employees' Retirement System (Iowa PERS) was established in 1953. It provides benefits to state and local government employees in three tiers, regular employees, protection occupation employees, and sheriffs and airport fire fighters. Separate to the members of the state plan, Iowa has provisions at the state and local level for police and fire employees through the Municipal Fire and Police Retirement System and the Peace Officers' Retirement System.

Iowa Regular Public Employee Retirement Eligibility: Retirement at 30 years of service for a 60 percent of final compensation benefit, 0.25 percent additional benefit each year after 30 years to a 65 percent maximum. Early retirement with a 6 percent per year reduction each year before normal retirement.

Iowa Protection Occupations Retirement Eligibility: Retirement based on a 24 years of service base for a 60 percent of final compensation benefit, 1 percent additional benefit each year after 24 years to a 66 percent maximum.

Iowa Sheriffs/Airport Fire Fighter Retirement Eligibility: Retirement based on a 22 years of service base for a 60 percent of final compensation benefit, 1.5 percent additional benefit each year after 22 years to a 72 percent maximum.

Members with service in more than one of the categories may use a "hybrid formula" to take all special and regular service into account in calculating their benefit. The number of years in each type of service is divided by the number of years required to retire in that system (30 for Regular, 22 for Sheriffs, 24 for Protection Occupations), and the results are then added to determine the amount of a full 60 percent benefit the member receives for retiring.

There are three categories of members within Iowa PERS, Regular, Sheriffs/Deputy Sheriffs/Airport Firefighters, and Protection Occupations members. In addition there are separate systems for municipal police and fire fighters.

Iowa Public Employees' Retirement System Contribution Rate in Effect June 30, 2001

Plan/Rate	Employee	Employer	Total
Regular PERS	3.70%	5.75%	9.45%
Sheriffs/Airport Fire	5.59%	8.39%	13.98%
Protection Occupations	5.90%	8.86%	14.76%

The Protection Occupation category is statutorily listed, and in Iowa PERS includes the following types of employees:

- City Marshals, Police or Firefighters in towns under 8,000 population
- State Conservation Peace Officers
- State Correctional Officers

- Airport Safety Officers
- Dept. of Transportation Peace Officers
- Fire Prevention Inspector Peace Officers

Arizona Public Employees', Public Safety, and Corrections Officers' Systems

The Arizona State Retirement System provides benefits for employees of the state government, universities, counties, cities and towns, as well as other public employers. In addition to the general retirement system, Arizona has a Public Safety Personnel Retirement System and a separate Corrections Officer Retirement Plan.

The Arizona Public Safety Personnel Retirement System was established to aggregate municipal fire and police, the Arizona highway patrol, and other disparate plans from throughout Arizona in 1968. Eligible members must be regularly assigned to hazardous duty, and currently include the broad array of following groups:

- Municipal police officers who are certified peace officers
- Municipal fire fighters
- Full-time paid fire fighters employed directly by a fire district
- Arizona Highway Patrol Officers who are certified peace officers
- State fire fighters
- County Sheriffs and deputies who are certified peace officers
- Fish and game wardens who are certified peace officers
- Airport police who are also certified peace officers and fire fighters
- University police who are certified peace officers
- Community college police who are certified peace officers
- Indian reservation police who are certified peace officers
- Indian reservation fire fighters
- Dept. of Administration police who are certified peace officers
- Dept. of Liquor Licenses and Control Investigators who are certified peace officers
- Dept. of Agriculture officers who are certified peace officers
- State Parks Board rangers and managers who are certified peace officers
- County park rangers who are certified peace officers

In addition to the Public Employee and Public Safety Plans, Arizona also has a separate service for Corrections Officers. The Arizona Corrections Officer Retirement plan provides benefits to all board designated full-time employees of participating employers - which can include both state and state subdivision corrections employers. Contributions by members are fixed at 8.5 percent of pay, and employers contribute an additional amount as actuarially necessary to fund benefits and accrued liability but in no event less than 2 percent of pay.

Contributions to the Arizona Public Safety Plan by members are statutorily set at 7.65 percent of pay and employers contribute an additional amount each year as actuarially necessary to fund the normal cost of benefits earned and to fund any accrued liability. Each employer may pay a different rate on the basis of the valuation of their actuarial experience.

The Arizona Public Employee plan provides for employee contributions of during the 2001 and 2002 fiscal years is 2.49% and the employers are contribute an equal amount.

Arizona Public Employee Retirement Eligibility: Full retirement at age 65, age 62 with 10 years of service, or under a rule of 80. The COLA, called the Excess Earnings permanent benefit increase, is similar to the Washington plan 1 Uniform COLA. Early retirement with reductions beginning at age 50 with five or more years of service.

Arizona Corrections Officer Retirement Eligibility: Full retirement at age 62 with 10 or more years of service, at 20 years of service (25 years for dispatchers), or upon satisfying a rule of 80. Full retirement entitles a member to fifty percent of final average salary, increased or decreased if the member has more or less than 20 years of service.

Arizona Public Safety Personnel Eligibility: Full retirement at age 62 with 15 years of service or upon completion of 20 years of service. Full retirement benefit is 50 percent of average final salary, less 4 percent for each year under twenty years of service or increased 2 percent for each year beyond 20 to a maximum of 80 percent.

6. Two Possible Approaches: Rule of 90 and Service Credit Purchase

The following two benefit concepts have in them the underlying premises:

- The benefits are paid for entirely by the eligible member/employees.
- The benefits are prospective-only in application.

The first of these premises, that the member pay for the benefit in its entirety, is unlike the existing cost-sharing principle that is part of the PERS plans 2/3. It also means that there would be no additional cost for retirement benefits to employers regardless of the participation of their members in the conceptual public safety benefit.

The second premise, that either concept be prospective-only, means that there be no mechanism to "convert" past service from non-public safety to public safety qualified. In the case of the first concept, the Rule of 90 approach, this prospective-only approach means that service earned prior to the implementation of the new benefit will not be creditable as public safety service towards the Rule. Under the second concept, improved Early Retirement Reduction Factor (ERRF)-eligibility purchase, retroactivity is not necessarily an issue however as the availability may be conditioned on several different factors independent of service such as sufficient accumulation of defined contributions to purchase the improved ERRF-eligibility at a certain age.

1. *Rule of 90, employee contribution only.*

Full retirement eligibility in PERS plan 2/3 is generally unrelated to the members length of service, though the level of benefits, early retirement eligibility, and particularly the accessibility of the current improved ERRF is length of service related. This is in contrast with plans such as PERS plan 1 which has age and service eligibility formulas such as retirement with 30 years of service at any age, or at age 55 with 25 years of service.

A "Rule of 90" retirement eligibility formula for public safety members would permit members with a combination of age and years of service totaling 90 to retire with an unreduced benefit. An employee 60 years old with 30 years of service would meet a Rule of 90, as would an employee aged 55 with 35 years of service.

On a purely prospective service credit basis, a member would likely base their benefit on years of service earned in a public safety qualified position only. While a multiple plan benefit approach as exists in the portability statutes (Chapter 41.54 RCW) might be employed for careers of mixed service, it is unclear how years of service would be mixed to satisfy a Rule approach that requires years of service in one plan.

For example, under current law a member with service in both LEOFF plan 2 and PERS plan 2 may use the salary from one position for the calculation of the benefits from both, but each benefit is still only available unreduced from that plan's retirement age. If such a member retired at the LEOFF plan 2 normal retirement age and elects to begin receiving their PERS plan 2 benefit at the same time, their PERS plan 2 benefit will be actuarially reduced from age 65 to age 53.

This portability approach suggests that the benefit taken at satisfaction of the Rule of 90 earned from service in PERS prior to the creation of the public safety category would be reduced from age 65 to the age that the member attains the Rule of 90.

Rule of 90 Examples:

<u>Group</u>	<u>Additional Rate for Future Service</u>
Average Age 40/Average Service 12	1.1%
Average Age 50/Average Service 20	0.8%
Average Age 40/Average Service 20	2.4%

2. *Service credit purchase for ERRF eligibility.*

Currently, members of PERS plan 2/3 may be eligible for a reduced early retirement benefit beginning at age 55. If a member has earned 30 years of service or more, they qualify for an ERRF of 3 percent per year between their age and the full PERS plan 2/3 retirement age of 65. This 3 percent per year reduction is a much smaller per year reduction that retirees with less than 30 years must take to early retire - those shorter service early retirees face a full actuarial rate of reduction that could average about 8 percent per year, depending on the total number of years.

The 3 percent per year ERRF is also similar in amount per year to the annual increase in retirement allowance that members in PERS plan 2/3 each year after they retire.

Members could "purchase" eligibility for the PERS plan 2/3 ERRF after earning 20 years of service with a sufficient accumulation of contributions in an eligible account. Members, for example, who could never reach 30 years of service and eligibility for the existing ERRF prior to age 65 could gain thus access this benefit. Alternately, the member could purchase eligibility for an unreduced retirement allowance to begin as early as age 55, the PERS plan 2/3 early retirement age.

In each example below, an 8% rate of return and a salary growth rate of 4.5% is applied to the contributions made over the individual's career.

Service Credit Purchase Examples: (\$50,000 salary)

	<u>3% ERRF</u>	<u>Unreduced Benefit</u>
Sample individual #1		
Age 55, 20 years of service		
Lump sum cost	\$ 86,200	\$ 165,000
Rate required over 20 years	5.96%	11.44%
Sample individual #2		
Age 60, 25 years of service		
Lump sum cost	\$ 75,400	\$ 120,400
Rate required over 25 years	3.80%	6.07%

Appendix 1
Law Enforcement Office, Plan 2

Criterion	Definition
Employer	Any city, town, county, district, or general authority law enforcement agency.
Employment	<ol style="list-style-type: none"> 1. Commissioned and employed by an employer in a full time, fully compensated basis to enforce the criminal laws of the state of Washington generally; or 2. Public safety officer or director of public safety in a town having a population of less than 10,000.
Qualifications	<ol style="list-style-type: none"> 1. Classified deputy sheriffs must pass civil service examination; 2. Other than elected sheriff or appointed police chief, meet specified medical and health standards and 3. Completion of Criminal Justice Training Commission basic training.

Appendix 2
Fire Fighter Plan 2

Criterion	Definition
Employer	Any city, town, county, district or university.
Employment	<ol style="list-style-type: none">1. Serving on a full time, fully compensated basis as a member of fire fighter for an employer and is actively employed as such;2. Supervisory fire fighter personnel; or3. Full time executive secretary of an association of fire protection districts.
Qualifications	<ol style="list-style-type: none">1. Where required, pass civil service examination for fire fighter; and2. Meet specified medical and health standards.

Appendix 3
Groups Requesting LEOFF Membership

Potential Member Employment	Employer	Employment	Required Training¹
Public EMTs	Yes	No	N/A ²
County Corrections	Yes	No	No
County PUD Line Workers	No	No	No
Liquor Control Enforcement	No	No	No
Gambling Commission Enforcement	No	No	No
State Park Rangers	No	No	No
Department of Corrections	No	No	No
Fish and Wildlife Enforcement	Yes ³	Yes ³	Yes
WPPSS Security	No	No	No
Public Safety Officers	Yes	No	Yes
Community Correction	No	No	No
Bellingham Port Fire Fighters	No	No	N/A ²

¹ General law enforcement training by the Criminal Justice Training Commission.

² Requesting membership as firefighters.

³ Changed as a result of 2002 Legislature's adoption of SB 6067.

Appendix 4
Retroactive Transfer from PERS 2 to LEOFF Plan 2

Potential Member Employment	Plan 2 Member	Employer One Time Cost*	Ongoing Additional GFS LEOFF Cost**
County Corrections	2,500	198,250,000	4,865,000
County PUD Line Workers	385	30,531,000	749,000
Liquor Control Enforcement	70	5,551,000	136,000
Gambling Commission Enforcement	78	6,185,000	152,000
State Park Ranger (permanent)	166	13,164,000	232,000
State Corrections	3,002	238,059,000	5,842,000
Fish and Wildlife Enforcement	56	43,456,000	1,066,000
Community Correction	548	43,456,000	1,066,000
TOTALS	6,805	539,637,000	13,242,000

* We have based costs on an assumed average of \$54,059 and age 42 and 13 years of service.

** Represents the 2001 state portion of the LEOFF plan 2 contribution rate, 1.8% for the biennium.

Appendix 5

Explanation of categories of employees used in Labor and Industries claims charts

STATE LOTTERY OFFICERS

Classification: 710305
WAC: 296-17-756

Applies to employees of the lottery commission, including administrative employees, who have law enforcement powers such as, but not limited to, authority to arrest or to preserve order.

This classification excludes any lottery commission employees who do not have law enforcement powers who are to be reported separately in the classification applicable to work performed.

COUNTIES - PROF AND CLERICAL

Classification: 530607
WAC: 296-17-679

Applies to clerical office, administrative employees, and elected officials of counties, public utility districts and taxing districts, not otherwise classified (N.O.C.). Clerical duties include, but are not limited to, answering telephones, handling correspondence, computer work, and maintaining financial, personnel and payroll records. A clerical office is a work area which is physically separated from all other work areas by walls, partitions or other physical barriers. Administrative duties may be conducted in or out of the county, public utility district or taxing district facilities, but are conducted in an atmosphere free from the operative hazards of work environments such as, but not limited to, jails, law enforcement and road works. In addition to management activities, this **classification** also includes field auditors, social workers, alcohol and drug abuse programs, senior health and nutrition programs, medical and dental clinics or similar activities professionals would perform.

CITIES - CLERICAL

Classification: 530506
WAC: 296-17-678

Applies to clerical office, administrative employees, and elected officials of cities and towns. Clerical duties include, but are not limited to, answering telephones, handling correspondence, computer work, and maintaining financial, personnel and payroll records. A clerical office is a work area which is physically separated from all other work areas by walls, partitions or other physical barriers. Administrative duties may be conducted in or out of the city or town facilities, but are conducted in an atmosphere free from the operative hazards of the work environments such as, but not limited to, jails, law enforcement and road works. In addition to management activities, this **classification** also includes field auditors, social workers or similar activities professionals would perform.

HOUSING AUTH. CLERICAL

Classification: 530626
WAC: 296-17-678

Applies to clerical office and administrative employees of local public housing authorities. Clerical duties include, but are not limited to, answering telephones, handling correspondence, computer work, and maintaining financial, personnel and payroll records. A clerical office is a work area which is physically separated from all

STATE PROF. AND CLERICAL

Classification: 490200
WAC: 296-17-651

other work areas by walls, partitions or other physical barriers. Administrative duties may be conducted in or out of the housing authority facilities, but are conducted in an atmosphere free from the operative hazards of work environments such as, but not limited to, jails, law enforcement and road works. In addition to management activities, this **classification** also includes field auditors, social workers or similar activities professionals would perform.

Applies to those state employees who are assigned to work in an administrative capacity, a clerical office, or in public relations or sales work. For the purposes of this **classification**, field exposure is to the normal travel to a work assignment such as a field auditor or social worker would encounter. This **classification** includes all departments, agencies, boards, commissions, committees and elected officials of all branches of state government. This **classification** excludes employees with field exposure other than that described above, employees with law enforcement powers, and employees who provide patient health care.

PUB. INSTIT. OF HIGHER ED.

Classification: 490601
WAC: 296-17-655

Applies to public institutions of higher education such as universities, colleges, and junior colleges that have obtained state accreditation and are supported at least in part by public funds. Work contemplated by this **classification** includes, but is not limited to, administrative staff, professors/teachers, advisors, librarians, athletic coaches, medical staff at a hospital or research center run as part of the institution, restaurant/snack shop staff, campus security, janitorial/maintenance staff, clerical office and sales personnel.

STATE "LIMITED" LAW ENF. OFFICERS

Classification: 710300
WAC: 296-17-756

Applies to any state employees, including administrative employees, who have law enforcement powers such as, but not limited to, authority to arrest or to preserve order, and who are not covered by another classification (N.O.C.). State agencies assigned this classification include, but are not limited to, department of agriculture, department of natural resources, utility and transportation commission, Washington state gambling commission, Washington state liquor control board, and the Washington state parks and recreation commission.

WELFARE SPECIAL WORKS PROGRAM

Classification: 650500
WAC: WAC 296-17-718

Applies to certain "employees" of nonprofit establishments engaged in finding work experience for individuals who are in need of job training or skill enhancement to make them employable or more competitive in the job market. Establishments that qualify for this **classification** will solicit the participation of other businesses by offering the services of one of these individuals cost-free for a limited length of time, usually less than six months. During that period the business person who has agreed to participate will supply the

AIRPORT OPERATIONS

Classification: 680400
WAC: WAC 296-17-744

opportunity for work experience and the supervision of the work being performed while wages will be paid by the sponsoring organization.... security department, and nonprofit job counselors are typical sponsors of these programs. Work contemplated by this **classification** may be found in any type of work environment.

Applies to establishments engaged in operating airports. This **classification** includes work such as, but not limited to, control tower operations, information clerks located at the airport, baggage handlers who load/unload planes, maintenance and janitorial personnel, porters (skycaps), security personnel, fuel attendants and fire department personnel. This **classification** excludes clerical personnel and ticket sellers with no other duties...

COUNTIES - LAW ENF. OFFICERS

Classification: 690501
WAC: WAC 296-17-750

Applies to salaried law enforcement officers of counties and taxing districts and to volunteer law enforcement officers of counties and taxing districts who are not otherwise classified (N.O.C.) for whom full coverage is elected. Duties of law enforcement officers include, but are not limited to, directing traffic, patrolling by motor vehicle, motorcycle, bicycle, or on foot or horseback, preventing crimes, investigating disturbances of the peace, arresting violators, conducting criminal investigations, giving first aid, and guarding persons detained at the police station.

CITIES - SALARIED FIREFIGHTERS

Classification: 690400
WAC: WAC 296-17-749

Applies to salaried fire fighters of cities and towns. Fire fighters respond to fire alarms and other emergencies, control and extinguish fires, protect lives and property, and maintain fire fighting equipment, administer first aid and artificial respiration to injured persons and those overcome by fire and smoke. They may inspect buildings for fire hazards and compliance with fire prevention ordinances and may issue citations to building owners listing the fire regulation violations to be corrected. This classification includes paramedics employed by fire departments.

CITIES - LAW ENF. OFFICERS

Classification: 690500
WAC: WAC 296-17-750

Applies to salaried law enforcement officers of cities and towns and to volunteer law enforcement officers of cities and towns who are not otherwise classified (N.O.C.) for whom full coverage is elected. Duties of law enforcement officers include, but are not limited to, directing traffic, patrolling by motor vehicle, motorcycle, bicycle, or on foot or horseback, preventing crimes, investigating disturbances of the peace, arresting violators, conducting criminal investigations, giving first aid, and guarding persons detained at the police station.

COUNTIES - ALL N.O.C.

Classification: 150100
WAC: WAC 296-17-545

Applies to employees of counties and taxing districts, not covered by another **classification** (N.O.C.), who perform manual labor, or who supervise a work crew performing manual labor such as custodial or maintenance, and

STATE, N.O.C.

Classification: 530700
WAC: 296-17-67901

machinery or equipment operators including transit bus drivers. This **classification** includes administrative personnel such as engineers, safety inspectors, and biologists who have field exposure, and internal inventory and supply clerks.

Applies to state government employees not covered by another **classification** (N.O.C.) who perform manual labor, or who supervise a work crew performing manual labor such as custodial or maintenance, construction, or the operation of machinery or equipment. This **classification** includes administrative personnel such as engineers, safety inspectors, and biologists, who have field exposure, and store and stock clerks. For the purposes of this **classification** field exposure is defined as any exposure other than the normal travel to a work assignment, such as a field auditor or social worker would encounter. This **classification** includes all departments, agencies, boards, commissions and committees of either the executive, legislative or judicial branches of state government.

COUNTIES - SALARIED FIREFIGHTERS

Classification: 690401
WAC: WAC 296-17-749

Applies to salaried fire fighters of counties and taxing districts. Fire fighters respond to fire alarms and other emergencies, control and extinguish fires, protect lives and property, and maintain fire fighting equipment, administer first aid and artificial respiration to injured persons and those overcome by fire and smoke. They may inspect buildings for fire hazards and compliance with fire prevention ordinances and may issue citations to building owners listing the fire regulation violations to be corrected. This classification includes paramedics employed by fire departments.

STATE - STATE PATROL

Classification: 710301
WAC: 296-17-756

Applies to employees of the Washington state patrol, including administrative employees, who have law enforcement powers such as, but not limited to, authority to arrest or to preserve order.

This classification excludes any state patrol employees who do not have law enforcement powers who are to be reported separately in the classification applicable to work performed.

CITIES - ALL N.O.C.

Classification: 080300
WAC: 296-17-529

Applies to employees of cities or towns who perform manual labor, or who supervise a work crew performing manual labor such as custodial or maintenance, and machinery or equipment operators including transit bus drivers. This **classification** includes administrative personnel such as engineers, safety inspectors, and biologists, who have field exposure, and also includes store and stock clerks.

PORT DISTRICTS

Classification: 420102
WAC: WAC 296-17-629

Applies to the operation of port districts by a municipality. Port districts have separate taxing authority and although they may receive tax dollars from levies most of their operating costs are funded through rental and use fees on the property and facilities they operate. Port districts are authorized by state law for the purpose of acquiring, developing, maintaining and operating various

STATE CORRECTIONAL OFFICERS

Classification: 710303
WAC: 296-17-756

ELECTRIC AND P.U.D.

Classification: 130102
WAC: WAC 296-17-539

STATE FISH & WILDLIFE OFFICERS

Classification: 710306
WAC: 296-17-756

LONGSHORING AND STEVEDORING

Classification: 420100
WAC: WAC 296-17-629

HOUSING AUTHORITY, ALL N.O.C.

Classification: 150101
WAC: WAC 296-17-545

transportation-related properties and facilities. In addition to marine and airports, the district may also develop and maintain facilities used for the transfer, handling, storage and terminal operations of commercial enterprises. This **classification** includes sales personnel and any stevedoring operations conducted by port district employees.

Applies to employees of the department of corrections, including administrative employees, who have law enforcement powers such as, but not limited to, authority to arrest or to preserve order.

This classification excludes any department of corrections employees who do not have law enforcement powers who are to be reported separately in the classification applicable to work performed.

Work contemplated by this **classification** includes the regular installation, maintenance and repair of power plant machinery and equipment, the extension and maintenance of lines (including poles, towers and underground lines), the installation and maintenance of circuit breakers and transformers on poles, pole-to-house hook-ups (service connections), meter installation and meter readers when done by employees of an employer having operations subject to this **classification**.

Applies to employees of the department of fish and wildlife, including administrative employees, who have law enforcement powers such as, but not limited to, authority to arrest or to preserve order.

This classification excludes any department of fish and wildlife employees who do not have law enforcement powers who are to be reported separately in the classification applicable to work performed.

Applies to establishments engaged in longshoring (stevedoring) operations which involve the transfer, loading, and unloading of ships' cargo and storage of such on docks or in nearby warehouses. This **classification** includes stevedoring by hand or hand truck and containerized stevedoring which involves the use of a cross deck crane for lifting the trailer body container onto or off of the ships deck or hold. This **classification** also includes wharf and pier operations, coal dock operations, cargo checkers, tallymen and the repackaging or mending of damaged containers in connection with stevedoring activities.

Applies to employees of housing authorities, not covered by another **classification**, who perform manual labor, or who supervise a work crew performing manual labor such as custodial or maintenance, and machinery or equipment operators. This **classification** includes all functional operations of a housing authority such as inspection, maintenance and repairs, including minor structural repairs, janitorial service, and building and

STATE GOVERNMENT: HEALTH CARE FACILITIES

Classification: 720100
WAC: 296-17-763

grounds maintenance. Also included in this **classification** are meter readers, security personnel, other than those with law enforcement powers, administrative personnel such as engineers and safety inspectors who have field exposure, and internal inventory and supply clerks.

Applies to state employees who provide any type of patient or health care at state-operated facilities or at health care facilities in state schools or correctional institutions. Type of employment contemplated by this classification includes, but is not limited to, traveling nurses, therapists, and physicians.

This classification excludes any state employees who do not provide patient or health care who are to be reported separately in the classification applicable to work performed.

SERS & PERS Membership/ Service Credit

Background:

Membership and service credit determinations of substitute employees for School Employee's Retirement System (SERS) members are not consistent among employers and may not adhere to existing statutes and administrative codes. This may be the result of the complexity in the statutes and rules themselves.

As a result of their permanent part-time status, many classified school employees work considerably fewer hours during the school year than full-time employees. But as with teachers, if they are ill or absent, they need a substitute. These substitutes work even fewer hours during the year than the already modest number worked by many of those for whom they are substituting. This limited work time makes it difficult for substitutes to accumulate significant amounts of service credit and significant value in the School Employees Retirement System.

Committee Activity:

Presentation:

July 10, 2002, Full Committee Meeting

October 16, 2002, Full Committee Meeting

Proposal Approved:

November 13, 2002

Recommendation to Legislature:

The same membership and service credit procedure used for substitute teachers should also be used for substitute school employees. At the end of each school year, substitute teachers may, after meeting membership requirements, opt to purchase the service credit warranted by the hours they worked.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov



Joint Committee on Pension Policy

Membership and Service Credit

October 16, 2002

Prepared by: Robert Wm Baker

Senior Research Analyst

Office of the State Actuary

P.O. Box 40914, Olympia, WA 98504-0914

360-753-9144 – actuary_st@leg.wa.gov

Table of Contents

	<u>Page</u>
Background:	1
Contrasting SERS and PERS Employers	1
Two Is Normal	2
Determining Eligibility for Membership	2
Substitutes and Eligibility	2
Multiple Permanent Positions and Membership	3
Administrative Practices Differ	3
Comparisons with Other Systems (CA, OR, ID, NV, Tacoma)	3
PERS and SERS Active Members and Annuitants	3
Lots of Early Terminations	4
Being a Terminator (I'll not be back)	5
Other Penalties of Membership	5
Data On Hours Worked and Service Credit Examined	5
Membership:	5
SERS Short-term Employees	5
Enrollment	6
350 Hours No Guarantee	7
SERS Cost\$	8
PERS Short-term Employees	8
PERS Seasonal Employers Top the List	8
Similar Rules in PERS and SERS	9
Short-term PERS Employers	10
PERS Cost\$	11
Costs are a Wash for Most Employers	11
Membership in Other Systems (CA, OR, ID, NV, Tacoma)	11
Idaho Similar	12
Tacoma Standards Easy	12
More Hours in Oregon	13
Nevada Tougher Still	13
California Stringent	13
Service Credit:	13
Little Work, Lots of Service Credit	14
Some Receive Less than Proportionate Credit	14
Service Credit in Other Systems (CA, OR, ID, NV, Tacoma)	15
Idaho Service Credit Most Similar	15
No Partial Month Credit in Oregon	16
Proportional Service Credit	16
The TRS Service Credit Connection	16

Significance of the Issue to Policy:	16
Policy Analysis:	17
Who should be in a retirement system?	17
Plan Membership Theory	18
SERS and PERS Policies	19
Current Policies Inclusive	19
Are These Policies Appropriate?	20
One Benefit Among Several	20
Retirement a Reasonable Benefit?	20
Defined Contribution or Deferred Compensation May Be Better Fit	20
Issues Addressed by Individual Choice	21
Proposals:	21
Executive Committee Recommendation:	22
Fiscal Impact:	22

Problem/Situation

Membership determinations for part-time, temporary, and substitute employees of Public Employee's Retirement System (PERS) and School Employee's Retirement System (SERS) are not consistent among employers and may not adhere to existing statutes and administrative codes. This may be the result of the complexity in the statutes and rules themselves.

JCPP Proposal to Study

At the December 2001 meeting of the Joint Committee on Pension Policy, a following motion to study the issue of membership and service credit was passed:

"The Joint Committee on Pension Policy moves that the issues of membership requirements and service credit related to substitute, temporary, and part-time employees in the Public Employees' Retirement System and the School Employees' Retirement System be studied during the 2002 interim."

Introduction

Each of Washington's state-administered retirement systems has distinct membership and service credit provisions (see Appendix A). These distinctions result from the nature of the employment covered by each plan. Membership in the SERS and PERS require a member to be in a position that normally requires five or more months of service a year for which regular compensation for at least seventy hours is earned. These employers offer services that can be provided by full-time, part-time, seasonal, project, or intermittent workers, and membership rules accommodate those situations.

In PERS and SERS, membership for employees in eligible positions is mandatory. If a position is ineligible, the employee is not a member, receives no service credit, and neither they nor their employer make contributions. Temporary employees who are working in positions that do not exist on an on-going basis are ineligible. However, if a temporary employee is substituting for an employee in an eligible position, they are also eligible and must be reported.

Generally, PERS and SERS membership provisions were designed around the eligibility of positions, a prospective process. Within these rules, however, there is accommodation of individual employee's experience; a retroactive process.

Background:

Contrasting SERS and PERS Employers

School districts are distinct from most other public or private employers. The great majority of their full-time employees work 180 days per year. Full-time employees in non-educational agencies work 260 days per year. Many school districts have 7½ hour school days. Most other employers require their full-time employees to work an 8 hour work day. These distinctions were taken into account when the Teachers

Retirement System (TRS) membership and service credit requirements were designed. These distinctions have proven awkward, however, among school district's classified (non-teaching) employees. Many of these workers are in permanent part-time positions. Bus drivers, lunch-room attendants, and playground monitors, are among the classified employees who work every day, but may work for only part of the day. Other classified employees, administrative support staff and teachers aides, do work the entire school day. Classified employees are officially in non-teaching positions, and are, if they meet the membership requirements, members of PERS or SERS.

As a result of their permanent part-time status, many classified employees work considerably fewer hours during the school year than full-time employees. But as with teachers, if they are ill or absent, they need a substitute. These substitutes work even fewer hours during the year than the already modest number worked by those for whom they are substituting. This limited work time makes it difficult for substitutes to accumulate significant amounts of service credit.

Two Is Normal

Again, an employee of a SERS or PERS employer is a retirement plan member if they are employed in an eligible position. An eligible position is one that normally requires five or more months of service a year for which compensation for at least seventy hours per month is earned. Normally has been defined as being for two years in a row.

Determining Eligibility for Membership

When a PERS or SERS employer hires an individual, they determine whether the position is eligible for retirement system membership. For part-time or substitute employees this can involve predicting the amount an individual will work each month, and the duration or frequency of the employment. Employers have the responsibility of reporting these determinations to the Department of Retirement Systems (DRS), and for reviewing them. If a position has changed over time from ineligible to eligible, or if a review of the position reveals an error, then the employer and employee are required to make retroactive contributions from the date when the position became eligible.

Substitutes and Eligibility

A substitute employee in PERS or SERS is likely filling in for someone in an eligible position. As a result, they must be reported as members even though they have no reasonable expectation of continued employment. With this dynamic in mind, rules were established by DRS allowing SERS employers to create ineligible "substitute positions" for each eligible position. However, if the substitute does work 70 hours per month for 5 months during the school year, and they do this two years in a row for the same employer, they are eligible to be a SERS member.

Multiple Permanent Positions and Membership

In addition to a job changing over time, individuals may be employed in several short-term jobs with the same employer. An employee may work as both a playground monitor and a lunch-room attendant. If the combined hours from these jobs meets the standards, the employee is eligible for plan membership. This combining of job duties into a single position when determining membership status addresses the concern of employers dividing an individual's work into different jobs to prevent membership.

Administrative Practices Differ

For a variety of reasons, including employer size, turnover of administrative staff, and record-keeping complexity, employer policies differ on whether part-time or substitute workers are or are not included in PERS or SERS membership. Based on records collected in this study, it appears that some employers exclude all part-time and substitute workers from membership. Others appear to include them all.

Comparisons with Other Systems (CA, OR, ID, NV, Tacoma)

There are a large variety of public retirement systems and plans. The membership and service credit provisions within each of those plans can be quite distinct. This report chose to examine the membership and service provisions from neighboring states (Idaho and Oregon), the largest state employees system (California), one of the fastest growing states (Nevada), and a local municipal system (Tacoma). A detailed tabulation of this comparison can be found in Appendix B.

PERS and SERS Active Members and Annuitants

As of December 31, 2000 there were 47,725 active SERS members. A modest majority of SERS members were in plan 2, the traditional defined benefit plan. The remainder were in plan 3, the hybrid defined benefit - defined contribution plan. There were also over 126,000 PERS 2 members (see Figure 1).

Figure 1
PERS and SERS Active Member Demographics: 2000

	<u>PERS 2</u>	<u>SERS 2</u>	<u>SERS 3</u>
Members	12,6428	25,714	22,011
Average Age	43.1	45.7	45.2
Average YOS	7.9	6.2	7.5
Average Annual Salary	\$ 39,265	\$ 20,466	\$ 22,073

Because SERS has only been in existence since September, 2000, the great majority of classified school retirees are PERS members, from plans 1 and 2 (see Figure 2).

Figure 2
**PERS and SERS Annuitant Demographics
 by School Association: 2000**

	PERS 1		PERS 2		SERS 2
	Total	School	Total	School	
Annuitants	53,161	13,458	7,927	2,207	27
Current Age	73.1	67.9	69.4	66.8	64.8
YOS	20.5	17.9	11.6	11	14.7
Monthly Benefit	\$ 1,040	\$ 643	\$ 517	\$ 343	\$ 467

Lots of Early Terminations

Terminations from the 1995-2000 Experience Study illustrate the volume of workers who enter and leave public service. In PERS alone over 14,000 members terminated within the first year of employment – over 21,000 within their first 3 years (see Figure 3). Over 9,200 SERS members also terminated within the first 3 years.

Figure 3
Terminations by Years of Service by Employer: 1995-1998

Years of Service	PERS	TRS	SERS	LEOFF
0-1	14,338	1,723	6,286	303
2-3	6,854	1,682	2,945	131
Total Terminations	35,089	6,685	14,406	944

Probability of Termination by Years of Service by Employer

Years of Service	PERS	TRS	SERS	LEOFF
0	26%	10%	23%	10%
1	16%	10%	14%	5%
10	4%	2%	4%	2%

The majority of terminations in these plans occur in the first several years of employment. This is consistent with the career exploration phase of most worker's labor market experience and employer's use of part-time, seasonal, and substitute workers. The lowest rate of terminations in these first 3 years is among teachers, police officers, and fire fighters. These workers make their career decisions prior to employment thus eliminating an exploration element common among most other's career searches.

Being a Terminator (I'll not be back)

When an employee terminates, or is terminated, they are allowed to leave their contributions in the plan or withdraw them. If they leave their contributions in, and they have met the vesting requirements, they are terminated-vested members. If they leave their contributions in the system and have not met the vesting requirements, they are terminated non-vested. If they withdraw their contributions, they sever their membership, are not eligible for a benefit, and the amount withdrawn may be subject to a 10% penalty unless rolled into another tax-deferred retirement account.

So one of the costs to some part-time and substitute PERS and SERS employees is the 10% penalty if they withdrew their contributions and were not interested in rolling them into an IRA. For some employees this amount is insignificant; the cost to DRS to process the refund check (\$18-\$20) can be greater than the refund itself. For others, particularly those who qualified for membership, the penalty could be large. In this particular study, the SERS employee with the greatest potential penalty made \$831 in contributions. As a result, should they withdraw their contributions, the penalty could be \$83.10.

Other Penalties of Membership

More of a concern for some substitute employees may not be the possible 10% withdrawal penalty but rather the loss of eligibility to contribute pre-tax dollars to an Individual Retirement Account (IRA). Members of qualified retirement plans cannot make pre-tax contributions to an IRA but could make contributions to a Roth IRA.

Data On Hours Worked and Service Credit Examined

SERS and PERS hours and service credit data were gathered from DRS to allow an in-depth analysis of this issue. These data captured those who were hired and terminated within the study period (2000-2001 school year in SERS or calendar year 2001 in PERS), left their contributions in their plan, and were non-vested. To ease the reading of this report short-term terminated non-vested will be abbreviated to short-term.

This study will focus on those included in membership though they did not work at least 5 months for 70 hours of compensation per month.

Membership:

SERS Short-term Employees

Data on short-term SERS employees, those hired and terminated during the 2000-2001 school year, were examined to see if there were any marked differences by SERS employers. SERS employers include all 296 school districts and 9 educational service districts. These employers range in size from 1 SERS employee up to almost 2,000.

Overall, 944 short-term SERS members from 138 school districts terminated employment at the end of the 2000-2001 school year but left their contributions in SERS. That was 2.3% of total SERS employment at those school districts during the year (see Figure 4).

In examining the school districts with over 1,000 SERS employees, one stands out -- Evergreen School District. During the 2000-2001 school year, 129 short term SERS employees were hired by Evergreen School District and then terminated at the end of the school year. This was over 5 times the state average.

This does not mean that Evergreen School District used more short-term classified employees than other districts. It does mean that they enrolled these short-term classified employees in SERS. This also means that both the school district and the employees paid contributions to the retirement system.

Figure 4
**SERS Employment by Select School Districts
During the 2000-2001 School Year**

District/Employer	Total SERS Employment	Short Term	
		Number	Percent
Seattle SD 001	1,956	35	1.8%
Spokane SD 081	1,408	32	2.3%
Tacoma SD 010	1,345	16	1.2%
Kent SD 415	1,289	38	3.0%
Vancouver SD 037	1,276	33	2.6%
Evergreen SD 114	1,173	129	11.0%
Edmonds SD 015	1,049	26	2.5%
Federal Way SD 210	1,014	4	0.4%
Lake Washington SD	1,012	15	1.5%
Total all Employers*	40,939	944	2.3%

**only those with short-term SERS employees who terminated and did not withdraw their contributions.*

Enrollment

Membership in SERS is mandatory for all regularly compensated classified employees of a school district or educational service district. While it is likely that all these employees were in eligible positions, it is necessary to examine their records to determine whether their actual experience matched the month and hour membership requirements.

Note: *While this examination looked at one year of data, DRS rules on eligible positions define such positions as requiring five or more months of service a year for which regular compensation for at least seventy hours is earned for two consecutive years.*

350 Hours No Guarantee

Of the 944 short-term SERS members, 383 (over 40 percent) worked less than 350 hours (5 months × 70 hours per month) during the year examined. Posting more than 350 hours is still no guarantee that a worker met the eligibility standards because of the variety of means to reach that number. Classified substitutes' work hours may vary dramatically from month to month. In theory a substitute worker could post 100 hours a month for 4 months but only 50 hours per month thereafter; they could work 800 hours in one year without being eligible for plan membership. As a result, an examination was done of individual records to determine whether these members actually worked at least 5 months for 70 hours in each month. Of all those examined, 360 (38 percent) exceeded the membership standard. That means some 584 (almost 62 percent) did not work the minimum amount in the membership standards (see Figure 5). At the extreme, 31 worked less than the 8 hours considered a regular work day.

Figure 5
**Short-term SERS Employees at Select Employers
 by Membership Qualification: 2000 - 2001 School Year**

District/Employer	Number	<70 hrs/month for 5 months	
		Number	Percent
Evergreen SD 114	129	123	95.3%
Highline SD 401	46	43	93.5%
Bellevue SD 405	38	20	52.6%
Kent SD 415	38	19	50.0%
Seattle SD 001	35	22	62.9%
Vancouver SD 037	33	24	72.7%
Clover Park SD 400	22	16	72.7%
Shoreline SD 412	18	13	72.2%
Renton SD 403	17	12	70.6%
Lakewood SD 306	14	14	100.0%
All Districts/Employers	944	584	61.9%

**only those with short-term SERS employees who terminated and did not withdraw their contributions.*

Of the 129 short-term SERS members from the Evergreen School District, 123 did not work at least 70 hours per month for 5 months. Of the 46 short-term SERS employees at Highline School District, 43 did not work the qualifying amount. And though the number was rather small, none of the short-term SERS employees at Lakewood School District worked 70 hours per month for 5 months.

SERS Cost\$

The cost of contributions for short-term terminated non-vested SERS members is two-fold: the cost to the employer and the cost to the employee. In the 2000-2001 school year, the employer contribution rate was 4.44% of pay and the employee contribution rate was 2.43% of pay. Total wages paid to these employees during the reference period was \$5.3 million. The total cost to school districts to make contributions for these short-term SERS members was over \$230,000 in the 2000-2001 school year (see Figure 6). On a per-district basis, again using only those 138 districts where the short-term members had been employed, the cost was about \$1,700 per year.

Figure 6
Wages and Contributions for Short-term SERS Employees
2000 - 2001 School Year

	Total	Average	Range
Wages paid	\$ 5,255,112	\$ 5,567	\$8-\$34,199
Employer Contributions	\$ 233,327	\$ 247	\$0.36-\$1,518
Employee Contributions	\$ 127,699	\$ 135	\$0.19-\$831

In terms of employee contributions, over \$41,000 in contributions were collected from those who did not work the qualifying amount during the 2000-2001 school year. There were 4 school districts where over \$2,000 in employee contributions were collected – Seattle, Bellevue, Kent, and Evergreen. A portion of these contributions could be described as unrealized wages.

PERS Short-term Employees

Hourly data were also examined for similar PERS 2 members who were hired and terminated during 2001. The numbers were much larger in PERS than SERS because of the larger number of PERS employers. These employers include municipalities, counties, state agencies, state hospitals, universities, colleges, utilities, and others.

During 2001 there were a total of 897 PERS 2 employers, 331 of which used short-term workers. As with SERS employers, their size was quite varied, from just two employees to over 11,902. These 331 employers had over 119,000 workers, with 3,675 or 3.1 percent being short-term employees -- a slightly higher ratio than SERS employers.

PERS Seasonal Employers Top the List

PERS and SERS employers differ in their use of short-term employees. The PERS employers that use the most significant numbers tend to be seasonal agencies (see Figure 7). Both the Department of Fish and Wildlife and the Parks and Recreation Commission reported a large share of short-term workers on their payrolls. The University of Washington used the largest number of these workers, though it was not a high percentage considering the overall size of their payroll. The same is true for Washington State University.

Figure 7
PERS 2 Employment by Select Employers: 2001

Employer	Total PERS 2 Employment	Short-term	
		Number	Percent
U of W	11,902	483	4.1%
DSHS	9,032	192	2.1%
Fish and Wildlife	1,430	128	9.0%
Parks and Recreation	489	113	23.1%
WSU	2,224	110	4.9%
Snohomish County	2,202	104	4.7%
DOT	4,427	97	2.2%
King County	5,710	81	1.4%
Energy Northwest	1,002	80	8.0%
Western State Hospital	1,814	77	4.2%
Total Employment*	119,083	3,675	3.1%

**only those employers employing short-term workers.*

Similar Rules in PERS and SERS

The membership rules in PERS 2 are the same as in SERS – an employee must be employed in an eligible position that normally requires 5 months with 70 hours compensation for those months in a 12 month period. In a one year period, that is a minimum of 350 hours of compensated work. Unlike the relatively small number of short-term SERS members, it is difficult to access the hourly records for each PERS member. As a result, estimates were made for the group in general.

Many Worked Less than Membership Standard

Of the 3,675 short-term PERS 2 members, 1,863 (a little over 50 percent) worked less than 350 hours during the year examined. As noted in the SERS discussion, posting more than 350 hours does not guarantee one of meeting the standard because of the variety of means to reach that number. A seasonal worker may post over 70 hours per month for four months but under 70 hours per month thereafter, thus not working the prescribed amount in the eligibility standard. As a result, the hours-membership relationship in SERS was used to approximate how many of these members in PERS 2 might work the amount in the plan's eligibility requirements.

In SERS, the greatest number of hours posted by a member who still had not worked 70 hours per month for 5 months was 770; above that level all members met the standard. Using 770 hours as the cutoff, and the ratio of workers between 350 and 770 hours results in an estimate of 2,484 out of the 3,687 short-term PERS 2 members having not worked at least 70 hours per month for 5 months (see Figure 8).

Figure 8
Estimate of Short-term PERS 2 Members
Who Worked Less than the Membership Standard: 2001

Hours	Number	<70 hr/month for 5 months	Percent	Number	<70 hr/month for 5 months	Percent
Under 350	383	383	100.0%	1,863	1,863	100.0%
350-770	363	201	55.4%	1,121	621*	55.4%
Over 770	198	0	0.0%	691	0	0.0%
Total	944	584	61.9%	3,675	2,484*	67.6%

*Estimate

Short-term PERS Employers

While half of these short-term PERS 2 members worked less than 350 hours, that experience differed by employer (see Figure 9). Of the 483 short-term PERS 2 members at the University of Washington, 296, or over 60 percent, worked under 350 hours. Almost 72 percent of the short-term workers at Washington State University failed to reach 350 hours. And 63 percent of these workers at DSHS did not reach 350 hours. At the extreme, 106 of these short-term workers posted 8 hours of work or less.

Figure 9
Short-term PERS 2 Employees
at Select Employers by 350 Hour Threshold: 2001

Employer	Short-Term	Under 350 Hours	
		Number	Percent
U of W	483	296	61.3%
DSHS	192	121	63.0%
Fish and Wildlife	128	63	49.2%
Parks and Recreation	113	51	45.1%
WSU	110	79	71.8%
Snohomish County	104	52	50.0%
DOT	97	33	34.0%
King County	81	46	56.8%
Energy Northwest	80	53	66.3%
Western State Hospital	77	36	46.8%
Total Employment	3,675	1863	50.7%

PERS Cost\$

As in SERS, the cost of contributions for short-term PERS members is two-fold: the cost to the employer and the cost to the employee. In 2001, the employer contribution rate averaged 2.99% of pay, and the employee contribution rate averaged 1.66%. Total wages paid to these employees was about \$21.5 million. As a result, the total cost of employer contributions for these short-term PERS members was over \$641,000 (see Figure 10). On a per-employer basis, again using only those 331 employers where the short-term members had been employed, the cost was relatively modest – \$1,936 per year.

Figure 10
Wages and Contributions for Short-term PERS 2 Employees: 2001

	Total	Average	Range
Wages Paid	\$ 21,451,265	\$ 6,837	\$0–\$40,316
Employer Contributions	\$ 641,393	\$ 175	\$0–\$1,205
Employee Contributions	\$ 356,091	\$ 97	\$0–\$669

Costs are a Wash for Most Employers

An employer (and the plan) has some employees who will not receive a retirement benefit, and some who will. Those who don't receive a retirement benefit will receive their contributions and interest (less a withdrawal penalty unless placed in a qualified retirement plan.) The total cost for employers is not affected by removing these employees from membership because the termination rates would be adjusted and the contributions rates would increase to reflect the lower salary base over which they are paid. The employer's contributions, regardless of whether they were made on behalf of an employee who terminated and withdrew their contributions, will actually fund the benefits of those who remain and do earn a retirement.

Employer contributions are not made to pay the benefits of any particular employee, but rather for the group of employees. The required contribution is expressed as a percentage of pay for all employees, even though only some of the employee's will receive a retirement benefit. However, if a particularly employer has a disproportionate number of members who receive only their contributions back, that employer will pay more relative to other employers for their employees who receive other plan benefits. How much more would require more analysis; however, this may be a minor cost compared to other experience differences between employers such as what age their employees are hired and retire.

Membership in Other Systems (CA, OR, ID, NV, Tacoma)

This report chose to examine the membership provisions from neighboring states, the largest state employees system, one of the fastest growing states, and a local municipal system.

Figure 11
Membership Provisions in Select Retirement Systems

System	Membership Eligibility Requirements
Washington PERS/SERS 2/3	Employed in an eligible position normally requiring five or more months per year of 70 or more hours of service. Persons in ineligible positions who earn more than 70 hours a month for 5 months per year for two consecutive years retroactively become members.
Washington TRS 2/3	Employed in an eligible position normally requiring five or more months of at least 70 hours during September through August.
California PERS	Permanent full-time
California STRS	Employed to perform creditable service on a full-time basis.
Idaho PERSI	General employees: 20 or more hours per week and employment for 5 or more consecutive months. Teachers: Half time or more and employment for 5 or more consecutive months.
Nevada PERS	A person who is employed ½ time or more by a participating public employer.
Oregon PERS	Work in a qualifying position for at least 600 hours in a 12-month period.
Tacoma Retirement	Permanent employees. Excludes those employed less than 90 days.

Idaho Similar

Membership requirements vary widely even in this limited comparison. Membership in the Public Employee's Retirement System of Idaho (PERSI) is the most similar to Washington's PERS and SERS, but PERSI provisions require 20 hours of work per week for 5 consecutive months (see Figure 11). This can be upwards of 440 hours of work -- not much more than the 350 hours in Washington's PERS and SERS -- but the consecutive months standard is more restrictive.

Tacoma Standards Easy

Probably the most lenient standard for membership in this study is that found in the Tacoma Employee's Retirement System. In this system one can be a member if they are a permanent employee and employed more than 90 days. Three months of continuous service translates into a maximum of 520 hours of work. But the requirement is only for permanent employment not necessarily full-time; therefore the standard is a bit more inclusive than the others in this study.

More Hours in Oregon

Oregon PERS membership requires 600 hours of compensated service in a 12 month period. Though this is a higher hourly standard compared to Washington's PERS and TRS, there is no months requirement. An employee could work 150 hours a month for 4 months, or 60 hours a month for 10 months, and be eligible. In this manner, Oregon PERS's membership requirement may be considered more lenient than Washington's.

Nevada Tougher Still

Nevada has a more stringent membership standard; a person must be employed $\frac{1}{2}$ time or more. In a regular state agency that is 1,040 hours (2,080 hours \div 2), and in a school system it is 720 hours (90 days \times 8 hours).

California Stringent

The most stringent standards for membership in this study are found in the California PERS and TRS systems. In each, membership is limited to those who are permanent full-time employees. This is not to say that part-time, seasonal, and temporary employees are left without some sort of retirement coverage. Those who are not permanent full-time employees when working for CalPERS or CalSTRS employers are offered membership in state sponsored defined contribution plans.

Service Credit:

Service credit in Washington's retirement plans is typically awarded by months of service. A full-time employee will earn 12 months of service credit in one years time. A full-time teacher will not work 12 months in a year, but will earn 12 months of service credit for working the prescribed number of hours in the school year (see Figure 12).

Figure 12
Service Credit Provisions In PERS, SERS and TRS

System	Service Credit
PERS SERS 2/3	90 or more hours per month = 1 month of service credit 70 to 90 hours per month = $\frac{1}{2}$ month service credit Less than 70 hours per month = $\frac{1}{4}$ month service credit
TRS 2/3	12 months full time credit is earned if member is employed in an eligible position or as a substitute teacher; works 9 months during the school year (Sept-August); and for at least 810 hours. 12 months of half time service earned if member is employed in an eligible position, works 9 months of the school year, and works between 630 and 810 hours.

Originally, service credit was not awarded for initial partial months of service. But most new employees are typically hired in the middle rather than on the first day of a month. As a result, under the old rules they would pay contributions but not receive service credit until the first whole month of employment. Amended statutes allowed new employee's initial partial month service to be calculated and credit allowed.

Little Work, Lots of Service Credit

These partial month service credit rules have since been interpreted to include all workers in most every part-time or part-month situation, not just the newly hired. As a result, there can be instances where large amounts of service credit may be awarded for very little work. It is not unusual for a worker to be employed just one day and be awarded 1/4 month of service credit. While these rules overstate the amount of time a member worked, they also understate their salary. This may result in workers retiring earlier than they would under a less generous system, but they do so with a lower benefit.

Figure 13
**Proportion of Service Credit Awarded Relative to Hours Worked
Among Short-Term SERS and PERS Members**

Service Credit Relative to Hours Worked	SERS		PERS	
	Number	Percent	Number	Percent
Less Than	82	8.7%	594	16.4%
Equal To	9	1.0%	96	2.7%
Greater Than	852	90.3%	2,930	80.9%
2 Times Greater	147	15.6%	187	5.2%

Based on the data collected for this study, over 90% of short-term SERS members earned service credit at a pace greater than their hours worked, and over 15% earned service credit at double the pace of a full-time worker (see Figure 13). These ratios are a bit lesser for the short-term PERS members – just over 80% earned service credit at a pace greater than their hours worked, and just over 5% earned service credit at double the rate of a full-time worker. For all the short-term employees examined in this study, SERS members earned service credit at an average of 1.4 times their actual hours worked, and PERS members earned service credit at an average of 1.1 times their actual hours worked.

Some Receive Less than Proportionate Credit

While the existing service credit rules are generous for the great majority of short-term workers, there are those who actually work more relative to the service credit they receive. There are numerous instances in this study where workers with 67 hours of work in a month, well over 1/3 of a month, were awarded 1/4 month of service credit. In this study nearly 9 percent of SERS short-term employees and over 16 percent of PERS short-term employees were awarded less service credit than would be warranted in a more proportionate system.

Service Credit in Other Systems (CA, OR, ID, NV, Tacoma)

In comparing Washington's service credit provisions with other systems in this study, it is apparent that Washington's are on the generous end of the spectrum.

Figure 14
Service Credit Provisions in Select Retirement Systems

System	Service Credit
California PERS	A full year of service credit is awarded for 10 full-time months (monthly pay employees); 215 days (daily pay employees); or 1,720 hours (hourly pay employees.) For lesser work, service credit proportionate.
California STRS	Service credit is calculated in the proportion that a member's earnings bears to the compensation that the member would have earned if he or she had been employed and worked full time in that position.
Idaho PERSI	15 days or more in a calendar month = 1 month service credit. Must be paid for 20 or more hours per week. Teachers must have at least a 50% contract to earn service credit. No parts of months calculations for service credit.
Nevada PERS	Non-school district employees earn service credit for years, months and days actually worked. School district employees receive a year of service credit for working a school year. Employment for part of the school year is credited on a ratio of one day worked/one and a third days service credit.
Oregon PERS	Members must be employed the majority of the month to receive one month of creditable service. No partial month credit. Teachers receive credit for two summer months if they work from Sept to Dec. They receive credit for the third summer month if they work the entire school year.
Tacoma TERS	2,080 hours = 1 service credit year Proportionate service credit based on hours worked.

Idaho Service Credit Most Similar

Idaho's service credit provisions most closely resemble those of Washington's PERS, SERS, and TRS is. In PERSI a member may earn 1 month of service credit if they work 15 days or more and are paid for 20 or more hours per week (see Figure 14); very similar to Washington's PERS / SERS provisions that require 90 hours of compensation per month to earn 1 month of service credit. A teacher may earn service credit in PERSI if they have at least a 50% contract. Where PERSI is more restrictive, however, is they award no partial months service credit.

No Partial Month Credit in Oregon

In Oregon a member must be employed the majority of the month to earn 1 month of service credit, and a teacher may earn 12 months of service credit if they work the entire school year. Also, Oregon does not award partial month service credit.

Proportional Service Credit

Partial service credit is awarded in the California, Nevada, and the Tacoma systems. In each of these systems, however, service credit is measured in years. So rather than parts of months, these systems award parts of years. Unlike Washington's systems, these systems award service credit on a proportionate basis – each system has a full-time standard, and however many months, days, hours, or earnings members accrue relative to that standard is how much service credit they are awarded.

So the awarding of service credit in Washington's PERS, SERS, and TRS systems is relatively more generous than the other systems examined in this study.

The TRS Service Credit Connection

Because they have the same employer as SERS members, Teacher's Retirement System membership and service credit provisions were also examined in this study. The one element that sets TRS 1 apart from the other retirement systems is it has a provision for members to purchase part-time service credit at their option.

A portion of a service credit year is given after the completion of a state fiscal year if: employment is less than 4/5ths of a school year; and the member files an application for service, provides proof of teaching service, and submits the necessary contributions by June 30 of the following school year in which the part-time service was rendered.

Following the submission of the application and contributions by the employee, the employer is billed for contributions by DRS.

Significance of the Issue to Policy:

Based on the collected data, many PERS and SERS employees enrolled in these retirement systems have not worked 70 hours per month for 5 months in a 12 month period. Was their enrollment improper? In general, no. The eligibility of a great majority of these positions is not in question. However, based on the large number of these workers, and admissions by school administrative staff, it is reasonable to conclude that a substantial minority were enrolled though ineligible.

Why would they be enrolled? This may be the result of the complexity of the plan membership rules and the difficulty of keeping records of those on infrequent work schedules. These factors may have resulted in an "Oh heck with it... put them all in" reaction from employers hoping to break even on the trade-off between contributions and administrative costs. These employers may believe they are erring in favor of the short-term employees, though retirement plan membership may not be what these employees want or need.

As a result, this issue ventures beyond the questions of compliance with membership and service credit rules, and employer and employee costs. As this issue primarily impacts workers who have relatively low wages and infrequent short periods of work, it broaches two greater questions:

Who should be in a retirement system?

**What level and kind of benefits should there be for short-term or substitute employees?
Should they include retirement benefits?**

Policy Analysis:

Who should be in a retirement system?

From its inception in 1947, PERS has had membership and service credit requirements that were relatively generous. Originally, membership consisted of all employees of the state whose service was at least 1,000 hours per year. Service credit was received if a member worked at least 10 days in a given month and six months in a given year. This less-than-full-time standard has been made even more generous. Public policy has been, evidently, to be as inclusive as possible in granting membership and service credit in these plans.

Select Legislative Changes to PERS

- 1955-57:** Legislation established the eligible position definition as "5 or more uninterrupted months of service for which regular compensation is paid."
- 1965-67:** Legislation allowed temporary persons hired into eligible positions who worked longer than six months in such a position to become members.
- 1971-72:** Probationary service credit could be claimed if member paid the 5% contribution for the period.
- 1976-77:** Legislation limiting membership in PERS to persons appointed to any committee, board, or commission who performed in such an appointment less than 10 days or 70 hours per month.
- 1977-79:** PERS 2 created. Service credit conditioned on working at least 90 hours per month.
- 1979-80:** Definition of service for PERS 1 was revised by eliminating the 10 day minimum leaving only the 70 hour per month requirement.

Plan Membership Theory

The desire for membership in a retirement plan is related to the employment expectations of each employee. If their job is a full-time position on a systematic career path, or if they simply have a full expectation of continued employment, the expectation of reaching retirement and membership in a retirement plan is reasonable. Even those employed in permanent part-time positions have a reasonable expectation of earning a retirement benefit, whether or not they eventually move to a full-time position. On the other hand, there are those employees who are merely filling in temporarily, be it for a seasonal peak or emergency situation, who have no expectation of continued employment; their inclusion in a retirement plan would be unnecessary. With this kind of membership continuum in mind it would be helpful to examine those employees who serve in temporary and substitute positions.

Short-term Characteristics

Employees who work temporarily, part-time, or as substitutes can be of many different types and different motivations. Some may be casual employees who may never seek full time employment with their employer, and might view contribution to a retirement plan that they will never benefit from as a burden.

It would be reasonable to say that many in temporary or substitute positions, be it in PERS or SERS, are secondary wage earners. They may also be retirees who desire a more casual employment situation. Many of these marginally attached workers would be particularly attracted to school employers, and tend to be relatively stable in their employment relationship. This may be for reasons of convenience. Those in families with school-age children may desire a relatively voluntary and flexible employment situation that can accommodate their family's needs. What better than to be employed during the same hours as when the children are in school.

Modest Employment Expectations

Other substitute employees may aspire to full-time employment and see substituting as a means to gain access and experience. These employees might view contributions and service credit, even on a sporadic basis, as an opportunity to begin building retirement benefits at an earlier point in their careers. According to the most recent portability data (August 2000 through August 2001) a total of 9,002 PERS and SERS members became members of TRS (see Figure 15). It is unknown how many PERS members were in teaching assistant positions, and how many changed their career path entirely, but its probably safe to assume that they were more likely the former than the latter. The number that moved from SERS to TRS membership was 270 – less than one per school district.

Figure 15
**Change of System Membership
PERS and SERS into TRS**

From	To	Number
SERS	TRS	270
PERS	TRS	8,732
Total		9,002

SERS and PERS Policies

So, what is the policy for PERS and SERS plan membership and service credit for part-time and substitute (marginally attached) employees?

Are these policies appropriate in light of evidence that some employers may be having compliance difficulties and in light of the other needs of these employees?

Current Policies Inclusive

As mentioned in the earlier analysis regarding who should be in a retirement plan, the policy is quite simple for those full-time, fully compensated employees who have a full expectation of continued employment. The policy of who should not be in a retirement system is also quite simple for those short-term, temporary employees who have no expectation of continued employment. Where the policy becomes somewhat more complex is for those employees between these extremes. Considering the relatively lenient standards (5 months @ 70 hours per month in a 12 month period) it is apparent that the current policy is to include in PERS and SERS membership those who have only a very modest attachment to the work force, this can easily include those who substitute for members in eligible positions, be they full-time or part-time.

Are These Policies Appropriate?

The membership and service credit policies in PERS and SERS are more inclusive than those systems compared in this study. Whether or not this policy of inclusion is appropriate is best answered by comparing the options, or lack of options, available to those short-term workers who find themselves members of PERS or SERS.

One Benefit Among Several

For the majority of public workers in Washington State, retirement is primarily a defined benefit (or a hybrid defined benefit – defined contribution in plan 3) earned for service rendered. Because of the age 65 retirement provision in Washington State's PERS and SERS plans 2/3, that service can be for as little as 5 years, if a member began their employment at a late age, or for over 40 years, if a member began their service in their early-20s.

Within public service, retirement is one benefit out of a variety of benefits which include, annual leave, sick leave, paid holidays, dental and health care. These benefits are primarily available to full-time public employees. Workers in part-time or substitute positions rarely receive these benefits. Some substitute teachers may receive a pro-rated form of health care benefits depending on their total hours or days of work in the school year, and depending on their school district, but that is not necessarily the case for SERS substitutes or PERS temporary workers.

Retirement a Reasonable Benefit?

Of course some benefits received by full-time workers may be nonsensical for substitutes – sick leave and annual leave for instance. In this question of appropriate benefits, retirement must be questioned as well. For part-time or substitute workers, the prospects of earning a significant retirement benefit under a defined benefit system are constrained by the very nature of their employment situation – low wages and short/sporadic service.

Defined Contribution or Deferred Compensation May Be Better Fit

If it is decided that those meeting the minimum criteria should have a retirement benefit, does a defined benefit provide these members the best value? Or would they be better served by a defined contribution retirement (as in Cal STRS) or a deferred compensation program? One could argue that a defined contribution retirement would better serve those with low-wage, short-term or sporadic employment patterns; the contributions are a simple percent of pay, vesting can be immediate, portability is greater, and the question of service credit is eliminated. Deferred compensation, while not as attractive as a defined contribution, would provide a savings vehicle and, again, eliminate the issue of service credit.

Issues Addressed by Individual Choice

Retaining a defined benefit retirement program and giving substitutes the option to purchase service credit after the end of the year is also a possible benefit for short-term and substitute PERS and SERS workers. This would emulate the optional purchase of service credit available to TRS members who substitute teach. This would allow for individual choice based on the variety of employment circumstances and desires of the workers.

Proposals:

1. ***Raise membership and service credit standards.***

Increase the hours per month membership standard (80 or 90 hours per month for 5 months in a 12 month period) or simplify it to an minimum number of hours per year (500-600 hours in a 12 month period). The standard would be based on a fraction of full-time work (2,080 hours per year for general employees and 1,440 hours for school employees.) By raising the membership standard, the retirement system would not be capturing part-time, seasonal, or substitute workers who work a minimal amount and have no desire to be in a retirement plan.

Service credit standards could also be changed to accommodate the new membership standards. For instance, if the hourly standard was 520 hours per year ($\frac{1}{4}$ of the year) that would warrant 3 months of service credit - the minimum that could be earned. Those working a greater amount would earn proportionately more with rounding to the nearest $\frac{1}{4}$ month.

This approach would require only modest legislative action. However, it may not ease the difficulty some school districts have administering the membership and service credit rules.

2. ***Allow the purchase membership and service credit to classified and substitute employees similar to that of substitute teachers.***

Institute the same membership and service credit procedure used for substitute teachers. At the end of each school year substitute teachers may opt to purchase the service credit warranted by the hours they worked. As a voluntary approach, this would eliminate those from plan membership who don't qualify and those who don't wish to participate. As in TRS, contributions would be in after-tax dollars; this would eliminate much of the penalty should a member need to withdraw in the future.

As this administrative process is already in use, the burden is minimized. Recent procedural improvements at the Department have lowered the cost of administering the substitute teacher records. These improvements have lowered any potential cost of administering a similar process for substitute SERS workers.

3. ***Define substitutes more rigorously and exclude them from retirement plan membership, but allow them to contribute to the Deferred Compensation Program.***

At this time substitutes are not defined in the SERS chapter. As a result, those substituting for an ill or absent SERS member may be considered eligible because the position in which they are substituting is eligible. By eliminating substitutes from membership eligibility, the issues school administrators encounter in reconciling sporadic short-term employment with SERS membership and service credit rules would be addressed.

This proposal still eliminates the administrative difficulties in the current system but gives those excluded from retirement plan membership an option to build a retirement account. This would allow the contribution of pre-tax dollars and provide contributors greater flexibility.

There are low administrative costs for employers and the Department. Membership in DCP is voluntary, the proposal does not exclude those who want to be part of a plan.

4. *Offer membership to classified, short-term employees after they have met membership requirements but only require prospective contributions (with option to buy earlier service).*

Membership and service credit provision could be changed to be prospective only. After a short-term employee accumulates the necessary months and hours of work they would become a member, but they would only be required to pay future contributions. Retroactive payments could be voluntary, made some time prior to retirement.

This method would carry relatively low administrative costs for employers and the Department.

This would require that employers make contributions when employees purchased earlier service credit in order that it be a "cost-sharing" process.

Executive Committee Recommendation:

Option #2: At the end of a school year, classified substitutes who have worked five or more months of seventy or more hours for which earnable compensation is paid may become members of the School Employees Retirement System by applying to the department and making the appropriate contributions.

and

At the end of a school year, classified substitutes who are members of the School Employees Retirement System may receive service credit for the hours they worked during that school year by applying to the department and making the appropriate contributions.

Fiscal Impact:

See Fiscal Note.

Appendix A

Membership and Service Credit Provisions in Washington Systems

System/Plan	Membership	Service Credit Month Earned for...
LEOFF 1	Mandatory for full-time fully compensated police officers, fire fighters, and specified commissioned officers. Must meet medical, health and age standards	...each month of employment for which compensation is paid for 70 or more hours.
LEOFF 2	Mandatory for full-time fully compensated law enforcement officers and fire fighters.	...each month of employment for which compensation is paid for 90 or more hours. ½ credit for over 70 but less than 90 hours. ¼ credit for less than 70 hours.
PERS 1	Mandatory for all employees in eligible positions -- any position that normally requires 5 months of service per year for which regular compensation for 70 hours is earned.	...each month of employment for which compensation is paid for 70 or more hours.
PERS 2		...each month of employment for which compensation is paid for 90 or more hours. ½ credit for over 70 but less than 90 hours. ¼ credit for less than 70 hours.
TRS 1	Mandatory for employed in full-time positions as superintendents, their assistants, certificated employees, and doctors who render instructional service.	A service credit year when employed for 144 days in a full-time assignment. A portion of a service credit year is earned when employed for more than 20 days.
TRS 2/3		A service credit year is earned for 9 months employment with compensation for 810 hours. ½ time credit for between 630 but less than 810 hours. Or, one month of credit is earned for each month of employment for which compensation is paid for 90 or more hours. ½ credit for over 70 but less than 90 hours. ¼ credit for less than 70 hours.
SERS 2/3	Mandatory for classified employees of school districts and educational service districts in eligible positions – any position that normally requires 5 months of service per year for which regular compensation for 70 hours is earned.	...each month of employment for which compensation is paid for 90 or more hours. ½ credit for over 70 but less than 90 hours. ¼ credit for less than 70 hours.
WSPRS	Mandatory for commissioned officers of the Washington State Patrol.	... all months of full-time employment for which salary is paid for 70 or more hours.

Appendix B

State/System Comparison				
System	Members	Benefit Provided	Waiting Period	Retroactive Contributions
Washington PERS 2/3	- State - Local - Elected/appointed officials	Plan 2: Defined Benefit.		
Washington SERS	- School district employees	Plan 3: Hybrid Defined Benefit / Defined Contribution Plan.	None.	No.
Washington TRS 2/3	- Teachers			
California CALPERS	- State - Local - School District	Defined Benefit w/ local employer formula options.	None.	No.
Idaho PERSI	- State - Local - Teachers - School Districts	Defined Benefit.	None.	No.
Nevada PERS	- State - Local - School Districts - U of Nevada	Defined Benefit.	None for those employed ½ time or more. Intermittent and temporary employees may become members after 6 consecutive months of employment.	No. Many purchase up to 5 years of service credit after vesting.
Oregon PERS Tier 2	- State - Local - School Districts	Highest benefit produced under one of three formulas.	6 months with no interruptions longer than 30 consecutive days.	No. Member may purchase waiting-period service after accumulating 10 YOS.
Tacoma TERS	All employees of the city, other than those excluded by ordinance, or those upon hire who are expected to work less than 3 months.	Defined Benefit.	None for employees scheduled for more than 3 months. City council members: 90 days from start of term.	No.

State/System Comparison

System	Membership Eligibility	Service Credit
Washington PERS/SERS 2/3	Employed in an eligible position normally requiring five or more months per year of 70 or more hours of service. Persons in ineligible positions who earn more than 70 hours a month for 5 months per year for two consecutive years retroactively become members.	90 or more hours per month = 1 month of service credit 70 to 90 hours per month = 1/2 month service credit Less than 70 hours per month = 1/4 month service credit
Washington TRS 2/3	Employed in an eligible position normally requiring five or more months of at least 70 hours during September through August.	12 months full time credit is earned if member is employed in an eligible position or as a substitute teacher; works 9 months during the school year (Sept-August); and for at least 810 hours. 12 months of half time service earned if member is employed in an eligible position, works 9 months of the school year, and works between 630 and 810 hours.
California CALPERS	Permanent full-time	A full year of service credit is awarded for 10 full-time months (monthly pay employees); 215 days (daily pay employees); or 1,720 hours (hourly pay employees.) For lesser work, service credit proportionate.
California CALSTRS	Employed to perform creditable service on a full-time basis.	Service credit is calculated in the proportion that a member's earnings (creditable compensation) bears to the compensation that the member would have earned if he or she had been employed and worked full time in that position.
Idaho PERSI	General employees: 20 or more hours per week and employment for 5 or more consecutive months. Teachers: Half time or more and employment for 5 or more consecutive months.	15 days or more in a calendar month = 1 month service credit. Must be paid for 20 or more hours per week. Teachers must have at least a 50% contract to earn service credit. No parts of months calculations for service credit.
Nevada PERS	A person who is employed ½ time or more by a participating public employer.	Non-school district employees earn service credit for years, months and days actually worked. School district employees receive a year of service credit for working a school year. Employment for part of the school year is credited on a ratio of one day worked/one and a third days service credit.
Oregon PERS	Work in a qualifying position for at least 600 hours in a 12-month period.	Members must be employed the majority of the month to receive one month of creditable service. No partial month credit. Teachers receive credit for two summer months if they work from Sept to Dec. They receive credit for the third summer month if they work the entire school year.
Tacoma TERS	Permanent employees. Excludes those employed less than 90days.	2,080 hours = 1 service credit year Proportionate service credit based on hours worked.

State/System Comparison

System	Intermittent	Seasonal	Temporary Provisional	Project or Limited Term	Emergency
Washington PERS, SERS, TRS 2/3	Employment without any understanding of continuity, fitting no particular pattern and performed for no more than a total of 9 months (1560 hours) during a 12-month period.	Employment which is cyclical in nature and begins at approximately the same time each year lasting 5 to 9 months in a 12 month period; or lasting as little as 3 months for the last 3 consecutive seasons.	Employment during the absence of a permanent employee; or during a workload peak to last no longer than 9 months (1560 hours); or while recruitment is conducted to establish a complete register.	- Separately funded by a grant, or by specially targeted federal or state funds; - Has a specific goal; and - Has an end in sight (shall normally last up to two years.)	An appointment for emergency reasons, not to last more than 30 calendar days.
California CALPERS	A position or appointment in which the employee is to work periodically or for a fluctuating portion of the full-time work schedule.	Employment of less than 6 months in a fiscal year (annual), 125 days in a fiscal year (daily), or 1,000 hours in a fiscal year (hourly).	An employee holding an appointment made in the absence of any appropriate employment list.	An employee whose appointment as a result of reinstatement or certification from an employment list shall not exceed two years.	An appointment made for a period not to exceed 60 working days either to prevent the stoppage of public business or because of the limited duration of the work.
Idaho PERSI	A non-classified, non-permanent position, limited to 1,385 hours in a 12-month period.	Work that occurs intermittently during the year.	Same as Intermittent.	Work limited to the length of the project grant or 2 years or 4,160 hours, whichever is shorter.	None.
Nevada PERS	Filled by a person who may be called to work at any time, supplements an agency's full-time staff, and whose compensation is separately identified in the budget.	An appointment not to exceed 9 months in any 12 month period	Positions not exceeding 6 months work in any 12 month period. Appointment in a vacancy while recruitment is conducted to establish a complete register	Same as temporary.	Employment necessary to prevent the stoppage of public business, loss of life, or extensive damage to persons or property. No longer than 60 days in a 12 month period
Oregon PERS	None	A position which occurs, terminates, and recurs periodically or regularly.	An appointment for the purpose of meeting emergency, nonrecurring or short-term workload needs of the agency.	A position not to exceed 2 years except when grant funded, shall expire upon completion of the study or project or when funding is ended.	A position to meet emergency, nonrecurring, or short-term workloads where a permanently funded position is not appropriate or feasible.
Tacoma TERS	No defined intermittent or seasonal, but service for those employed less than full time is prorated based on a 2,080 hour year.		A special job or project of limited duration, a vacancy during the absence of a permanent employee, or a permanent position pending the establishment of the eligible list.	Programs of limited duration, including special major construction projects, and projects or programs financed by federal or state governments grant-in-aid agreements, etc.	An employee whose services are required to prevent delay or injury to the public business. 30 day maximum with 10 day break.

State/System Comparisons

System	Membership Eligibility	Service Credit
Washington PERS/SERS 2/3	Full time: defined in WAC as regularly scheduled employment requiring an average of 40 hours per week.	Part time: defined in WAC as work of less than 40 hours per week
Washington TRS 2/3	Full-time - 90 or more hours per month	Part-time - less than 90 hours per month
California CALPERS	Full-time: A position or appointment in which the employee is to work the amount of time required for the employee to be compensated at a full-time rate.	Part-time: A position or appointment in which the employee is to work a specific fraction of the full-time work schedule.
California CALSTRS	Full time: The number of days or hours in a school year that the employer requires a "class of employees" to work.	Part-time: Anything less than full-time
Idaho PERSI	Full time: - General employees: 20 or more hours per week - Teachers: Half time or more	Part time: - Less than full-time.
Nevada PERS	Full time: ½ time or more.	Part time: Employee who regularly work at least half time for a full year with a minimum of 720 hours (90 days).
Oregon PERS		
Tacoma TERS	Full time: In paid status for 260 working days in a 12-month period. (2,080 hours per year.)	Part time: Less than 2,080 hours.

1 AN ACT Relating to providing optional service credit for substitute
2 service to members of the school employees' retirement system; amending
3 RCW 41.35.010 and 41.35.030; and adding a new section to chapter 41.35
4 RCW.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.35.010 and 2001 c 180 s 3 are each amended to read
7 as follows:

8 The definitions in this section apply throughout this chapter,
9 unless the context clearly requires otherwise((~~+~~))..

10 (1) "Retirement system" means the Washington school employees'
11 retirement system provided for in this chapter.

12 (2) "Department" means the department of retirement systems created
13 in chapter 41.50 RCW.

14 (3) "State treasurer" means the treasurer of the state of
15 Washington.

16 (4) "Employer," for plan 2 and plan 3 members, means a school
17 district or an educational service district.

1 (5) "Member" means any employee included in the membership of the
2 retirement system, as provided for in RCW 41.35.030.

3 (6) (a) "Compensation earnable" for plan 2 and plan 3 members, means
4 salaries or wages earned by a member during a payroll period for
5 personal services, including overtime payments, and shall include wages
6 and salaries deferred under provisions established pursuant to sections
7 403(b), 414(h), and 457 of the United States internal revenue code, but
8 shall exclude nonmoney maintenance compensation and lump sum or other
9 payments for deferred annual sick leave, unused accumulated vacation,
10 unused accumulated annual leave, or any form of severance pay.

11 (b) "Compensation earnable" for plan 2 and plan 3 members also
12 includes the following actual or imputed payments, which are not paid
13 for personal services:

14 (i) Retroactive payments to an individual by an employer on
15 reinstatement of the employee in a position, or payments by an employer
16 to an individual in lieu of reinstatement, which are awarded or granted
17 as the equivalent of the salary or wage which the individual would have
18 earned during a payroll period shall be considered compensation
19 earnable to the extent provided in this subsection, and the individual
20 shall receive the equivalent service credit;

21 (ii) In any year in which a member serves in the legislature, the
22 member shall have the option of having such member's compensation
23 earnable be the greater of:

24 (A) The compensation earnable the member would have received had
25 such member not served in the legislature; or

26 (B) Such member's actual compensation earnable received for
27 nonlegislative public employment and legislative service combined. Any
28 additional contributions to the retirement system required because
29 compensation earnable under (b) (ii) (A) of this subsection is greater
30 than compensation earnable under this (b) (ii) (B) of this subsection
31 shall be paid by the member for both member and employer contributions;

32 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
33 and 72.09.240;

34 (iv) Compensation that a member would have received but for a
35 disability occurring in the line of duty only as authorized by RCW
36 41.40.038;

37 (v) Compensation that a member receives due to participation in the

1 leave sharing program only as authorized by RCW 41.04.650 through
2 41.04.670; and

3 (vi) Compensation that a member receives for being in standby
4 status. For the purposes of this section, a member is in standby
5 status when not being paid for time actually worked and the employer
6 requires the member to be prepared to report immediately for work, if
7 the need arises, although the need may not arise.

8 (7) "Service" for plan 2 and plan 3 members means periods of
9 employment by a member in an eligible position or positions for one or
10 more employers for which compensation earnable is paid. Compensation
11 earnable earned for ninety or more hours in any calendar month shall
12 constitute one service credit month except as provided in RCW
13 41.35.180. Compensation earnable earned for at least seventy hours but
14 less than ninety hours in any calendar month shall constitute one-half
15 service credit month of service. Compensation earnable earned for less
16 than seventy hours in any calendar month shall constitute one-quarter
17 service credit month of service. Time spent in standby status, whether
18 compensated or not, is not service.

19 Any fraction of a year of service shall be taken into account in
20 the computation of such retirement allowance or benefits.

21 (a) Service in any state elective position shall be deemed to be
22 full-time service.

23 (b) A member shall receive a total of not more than twelve service
24 credit months of service for such calendar year. If an individual is
25 employed in an eligible position by one or more employers the
26 individual shall receive no more than one service credit month during
27 any calendar month in which multiple service for ninety or more hours
28 is rendered.

29 (c) For purposes of plan 2 and 3 "forty-five days" as used in RCW
30 28A.400.300 is equal to two service credit months. Use of less than
31 forty-five days of sick leave is creditable as allowed under this
32 subsection as follows:

- 33 (i) Less than eleven days equals one-quarter service credit month;
- 34 (ii) Eleven or more days but less than twenty-two days equals one-
35 half service credit month;
- 36 (iii) Twenty-two days equals one service credit month;
- 37 (iv) More than twenty-two days but less than thirty-three days
38 equals one and one-quarter service credit month; and

(v) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

(8) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(9) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(10) "Membership service" means all service rendered as a member.

(11) "Beneficiary" for plan 2 and plan 3 members means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(12) "Regular interest" means such rate as the director may determine.

(13) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(14) "Average final compensation" for plan 2 and plan 3 members means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.40.710(2).

(15) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(16) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(17) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(18) "Retirement allowance" for plan 2 and plan 3 members means monthly payments to a retiree or beneficiary as provided in this chapter.

(19) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work.

1 The department shall adopt rules and interpret this subsection
2 consistent with common law.

3 (20) "Actuarial equivalent" means a benefit of equal value when
4 computed upon the basis of such mortality and other tables as may be
5 adopted by the director.

6 (21) "Retirement" means withdrawal from active service with a
7 retirement allowance as provided by this chapter.

8 (22) "Eligible position" means any position that, as defined by the
9 employer, normally requires five or more months of service a year for
10 which regular compensation for at least seventy hours is earned by the
11 occupant thereof. For purposes of this chapter an employer shall not
12 define "position" in such a manner that an employee's monthly work for
13 that employer is divided into more than one position.

14 (23) "Ineligible position" means any position which does not
15 conform with the requirements set forth in subsection (22) of this
16 section.

17 (24) "Leave of absence" means the period of time a member is
18 authorized by the employer to be absent from service without being
19 separated from membership.

20 (25) "Retiree" means any person who has begun accruing a retirement
21 allowance or other benefit provided by this chapter resulting from
22 service rendered to an employer while a member.

23 (26) "Director" means the director of the department.

24 (27) "State elective position" means any position held by any
25 person elected or appointed to statewide office or elected or appointed
26 as a member of the legislature.

27 (28) "State actuary" or "actuary" means the person appointed
28 pursuant to RCW 44.44.010(2).

29 (29) "Plan 2" means the Washington school employees' retirement
30 system plan 2 providing the benefits and funding provisions covering
31 persons who first became members of the public employees' retirement
32 system on and after October 1, 1977, and transferred to the Washington
33 school employees' retirement system under RCW 41.40.750.

34 (30) "Plan 3" means the Washington school employees' retirement
35 system plan 3 providing the benefits and funding provisions covering
36 persons who first became members of the system on and after September
37 1, 2000, or who transfer from plan 2 under RCW 41.35.510.

1 (31) "Index" means, for any calendar year, that year's annual
2 average consumer price index, Seattle, Washington area, for urban wage
3 earners and clerical workers, all items, compiled by the bureau of
4 labor statistics, United States department of labor.

5 (32) "Index A" means the index for the year prior to the
6 determination of a postretirement adjustment.

7 (33) "Index B" means the index for the year prior to index A.

8 (34) "Adjustment ratio" means the value of index A divided by index
9 B.

10 (35) "Separation from service" occurs when a person has terminated
11 all employment with an employer.

12 (36) "Member account" or "member's account" for purposes of plan 3
13 means the sum of the contributions and earnings on behalf of the member
14 in the defined contribution portion of plan 3.

15 (37) "Classified employee" means an employee of a school district
16 or an educational service district who is not eligible for membership
17 in the teachers' retirement system established under chapter 41.32 RCW.

18 (38) "Substitute employee" means a classified employee who is
19 employed by an employer exclusively as a substitute for an absent
20 employee.

21 **Sec. 2.** RCW 41.35.030 and 1998 c 341 s 4 are each amended to read
22 as follows:

23 Membership in the retirement system shall consist of all regularly
24 compensated classified employees and appointive and elective officials
25 of employers, as defined in this chapter, with the following
26 exceptions:

27 (1) Persons in ineligible positions;

28 (2)(a) Persons holding elective offices or persons appointed
29 directly by the governor: PROVIDED, That such persons shall have the
30 option of applying for membership during such periods of employment:
31 AND PROVIDED FURTHER, That any persons holding or who have held
32 elective offices or persons appointed by the governor who are members
33 in the retirement system and who have, prior to becoming such members,
34 previously held an elective office, and did not at the start of such
35 initial or successive terms of office exercise their option to become
36 members, may apply for membership to be effective during such term or
37 terms of office, and shall be allowed to establish the service credit

1 applicable to such term or terms of office upon payment of the employee
2 contributions therefor by the employee with interest as determined by
3 the director and employer contributions therefor by the employer or
4 employee with interest as determined by the director: AND PROVIDED
5 FURTHER, That all contributions with interest submitted by the employee
6 under this subsection shall be placed in the employee's individual
7 account in the employee's savings fund and be treated as any other
8 contribution made by the employee, with the exception that any
9 contributions submitted by the employee in payment of the employer's
10 obligation, together with the interest the director may apply to the
11 employer's contribution, shall not be considered part of the member's
12 annuity for any purpose except withdrawal of contributions;

13 (b) A member holding elective office who has elected to apply for
14 membership pursuant to (a) of this subsection and who later wishes to
15 be eligible for a retirement allowance shall have the option of ending
16 his or her membership in the retirement system. A member wishing to
17 end his or her membership under this subsection must file on a form
18 supplied by the department a statement indicating that the member
19 agrees to irrevocably abandon any claim for service for future periods
20 served as an elected official. A member who receives more than fifteen
21 thousand dollars per year in compensation for his or her elective
22 service, adjusted annually for inflation by the director, is not
23 eligible for the option provided by this subsection (2) (b);

24 (3) Retirement system retirees: PROVIDED, That following
25 reemployment in an eligible position, a retiree may elect to
26 prospectively become a member of the retirement system if otherwise
27 eligible;

28 (4) Persons enrolled in state-approved apprenticeship programs,
29 authorized under chapter 49.04 RCW, and who are employed by employers
30 to earn hours to complete such apprenticeship programs, if the employee
31 is a member of a union-sponsored retirement plan and is making
32 contributions to such a retirement plan or if the employee is a member
33 of a Taft-Hartley retirement plan;

34 (5) Persons rendering professional services to an employer on a
35 fee, retainer, or contract basis or when the income from these services
36 is less than fifty percent of the gross income received from the
37 person's practice of a profession;

1 (6) Substitute employees, except for the purposes of the purchase
2 of service credit under section 3 of this act. Upon the return or
3 termination of the absent employee a substitute employee is replacing,
4 that substitute employee shall no longer be ineligible under this
5 subsection;

6 (7) Employees who (a) are not citizens of the United States, (b) do
7 not reside in the United States, and (c) perform duties outside of the
8 United States;

9 ((77)) (8) Employees who (a) are not citizens of the United
10 States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded
11 from membership under this chapter or chapter 41.04 RCW, (d) are
12 residents of this state, and (e) make an irrevocable election to be
13 excluded from membership, in writing, which is submitted to the
14 director within thirty days after employment in an eligible position;

15 ((78)) (9) Employees who are citizens of the United States and who
16 reside and perform duties for an employer outside of the United States:
17 PROVIDED, That unless otherwise excluded under this chapter or chapter
18 41.04 RCW, the employee may apply for membership (a) within thirty days
19 after employment in an eligible position and membership service credit
20 shall be granted from the first day of membership service, and (b)
21 after this thirty-day period, but membership service credit shall be
22 granted only if payment is made for the noncredited membership service
23 under RCW 41.50.165(2), otherwise service shall be from the date of
24 application.

25 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.35 RCW
26 under the subchapter heading "provisions applicable to plan 2 and plan
27 3" to read as follows:

28 (1) A substitute employee who works five or more months of seventy
29 or more hours for which earnable compensation is paid in a school year
30 may apply to the department to establish membership after the end of
31 the school year during which the work was performed. The application
32 must:

33 (a) Include a list of the employers the substitute employee has
34 worked for;

35 (b) Include proof of hours worked and compensation earned; and

36 (c) Be made prior to retirement.

1 (2) Substitute employees who are members may apply to the
2 department to receive service after the end of the last day of
3 instruction of the school year during which the service was performed.
4 The application must:

5 (a) Include a list of the employers the substitute employee has
6 worked for;

7 (b) Include proof of hours worked and compensation earned; and

8 (c) Be made prior to retirement.

9 (3) If the department accepts the substitute employee's application
10 for service credit, the substitute employee may obtain service credit
11 by paying the required contribution to the retirement system. The
12 employer must pay the required employer contribution upon notice from
13 the department that the substitute employee has made contributions
14 under this section.

15 (4) The department shall charge interest prospectively on employee
16 contributions that are submitted under this section more than six
17 months after the end of the school year, as defined in RCW 28A.150.040,
18 for which the substitute employee is seeking service credit. The
19 interest rate charged to the employee shall take into account interest
20 lost on employer contributions delayed for more than six months after
21 the end of the school year.

22 (5) Each employer shall quarterly notify each substitute employee
23 it has employed during the school year of the number of hours worked
24 by, and the compensation paid to, the substitute employee.

25 (6) If a substitute employee, as defined in RCW 41.35.010(38),
26 applies to the department under this section for credit for earnable
27 compensation earned from an employer, the substitute employee must make
28 contributions for all periods of service for that employer.

29 (7) The department shall adopt rules implementing this section.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/16/02	Z-0147.1

SUMMARY:

This bill impacts the School Employees Retirement System by allowing substitute employees to purchase service credit.

Effective Date: Ninety days after session.

BACKGROUND DISCUSSION:

Substitutes for classified employees in school districts may earn service credit in the School Employees Retirement System if they work five or more months of during the year for which compensation for at least seventy hours per month is earned two years in succession.

Currently, by substituting on a frequent basis, a classified substitute employee may surpass the requirements to earn school employees' retirement system service credit. When this occurs, their employer must make the appropriate employer contributions to the retirement plan for the period during which the employee fulfilled those requirements. The substitute employee is also billed for the employee contributions for the same period. School districts are inconsistent with the application of these service credit rules.

While some substitutes may use this experience to work into a full-time position, others do not. Many substitutes withdraw their contributions after they terminate employment at the end of the school year. This causes administrative costs at the school districts and at the department. It also causes a financial burden to the substitute because they are assessed a 10% tax penalty for withdrawing.

MEMBERS IMPACTED:

Current classified substitutes who are members would be removed from membership. We currently have no information on the number of classified substitute employees. Those who opt to purchase service credit under this bill would be doing so with after-tax dollars rather than with pre-tax dollars as do regular members.

FISCAL IMPACT:

By excluding all substitutes from membership, except those who opt in voluntarily, the contribution rate could increase. The cost of the retirement system would be borne only by those receiving the benefits as school districts would no longer make contributions for those who receive no benefits. The total cost would not increase, however.

Technical Corrections

Background:

Technical issues and statutory correction matters were brought before the Joint Committee on Pension Policy during the 2002 interim.

Committee Activity:

Presentation:

December 4, 2002, JCPP Full Committee Meeting

Proposal Approved:

December 4, 2002, JCPP Full Committee Meeting

Recommendation to Legislature:

Make technical corrections to retirement statutes: Correct cross-references and inadvertent omissions of necessary references, remove accidental duplication of statutory language, codify current administrative practices, and delete archaic language.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

Technical Corrections

Issue Summary

The bill makes necessary technical corrections to retirement statutes including incorrect cross-references, inadvertent omissions of necessary references, accidental duplication of statutory language, codifies current administrative practices, and deletes archaic language.

Summary:

Provisions to the major sections of the bill

- **Section 1** corrects an inadvertent omission of the School Employees' Retirement System in the list of state retirement systems found in RCW 41.04.450.
- **Section 2** corrects an inadvertent omission of the School Employees' Retirement System Plan 2 and Plan 3 and the Public Employees' Retirement System (PERS) Plan 3 in RCW 41.26.195.
- **Section 3** corrects a cross-reference to RCW 41.26.430(1) in RCW 41.26.460.
- **Section 4** corrects a cross-reference in the definition of "retiree" in RCW 41.31A.020 for PERS Plan 3.
- **Section 5** corrects a statutory cross-reference to the Administrative Procedures Act in RCW 41.35.640.
- **Section 6** is a correction to the survivor benefit bill from the 2002 session (Chapter 158, Laws of 2002) striking an erroneous reference to the PERS Plan 3 gainsharing benefit in RCW 41.40.660.
- **Section 7** is a correction to RCW 41.40.748 that clarifies the refund of contributions in the event that the member does not pay their bill for transfer of service in full by the deadline.
- **Section 8** corrects a statutory cross-reference to the Administrative Procedures Act in RCW 41.40.801.
- **Section 9** is also a correction to Chapter 158, Laws of 2002. One subsection in the RCW 41.40.845 was inadvertently duplicated. Also, the necessary reference to the Plan 3 gainsharing benefit was inadvertently omitted.
- **Section 10** corrects the omission of necessary cross-references to LEOFF, TRS, SERS, PERS, WSPRS and Chapter 41.34 accounts in RCW 41.50.700.
- **Section 11** corrects an inadvertent omission of PERS 3 in the dual membership statute (RCW 41.54.030) regarding Plan 3 benefits.

- **Section 12** removes a cross-reference in RCW 43.43.271 to benefit changes in Chapter 329, Laws of 2001, sections 1 and 2 that were vetoed by the Governor.
- **Section 13** removes duplicate language found in RCW 43.43.295 regarding the order of payment of the member's account following the death of member.
- **Section 14** removes an erroneous cross reference in RCW 41.45.060(3)(a) that was a result of changes in the amortization date in Plan 1.
- **Section 15** adds language to RCW 41.50.110 that codifies current administrative practices.
- **Section 16** deletes archaic language from RCW 44.44.040 that is contrary to current administrative practices.

Fiscal Impact:

There is no cost associated with this bill.

1 AN ACT Relating to correcting retirement system statutes; amending
2 RCW 41.04.450, 41.26.195, 41.26.460, 41.31A.020, 41.35.640, 41.40.660,
3 41.40.748, 41.40.801, 41.40.845, 41.45.060, 41.50.110, 41.50.700,
4 41.54.030, 43.43.271, 43.43.295, and 44.44.040; and providing an
5 effective date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 **Sec. 1.** RCW 41.04.450 and 2000 c 247 s 1103 are each amended to
8 read as follows:

9 (1) Employers of those members under chapters 41.26, (~~41.40, and~~)
10 41.34, 41.35, and 41.40 RCW who are not specified in RCW 41.04.445 may
11 choose to implement the employer pick up of all member contributions
12 without exception under RCW 41.26.080(1) (a), 41.26.450, 41.40.330(1),
13 41.45.060, 41.45.061, and 41.45.067 and chapter 41.34 RCW. If the
14 employer does so choose, the employer and members shall be subject to
15 the conditions and limitations of RCW 41.04.445 (3), (4), and (5) and
16 RCW 41.04.455.

17 (2) An employer exercising the option under this section may later
18 choose to withdraw from and/or reestablish the employer pick up of

member contributions only once in a calendar year following forty-five days prior notice to the director of the department of retirement systems.

Sec. 2. RCW 41.26.195 and 1997 c 122 s 1 are each amended to read as follows:

Any member of the teachers' retirement system plans 1, 2, or 3, the public employees' retirement system plans 1 (~~(or)~~), 2, or 3, the school employees' retirement system plans 2 or 3, or the Washington state patrol retirement system plans 1 or 2 who has previously established service credit in the law enforcement officers' and fire fighters' retirement system plan 1 may make an irrevocable election to have such service transferred to their current retirement system and plan subject to the following conditions:

(1) If the individual is employed by an employer in an eligible position, as of July 1, 1997, the election to transfer service must be filed in writing with the department no later than July 1, 1998. If the individual is not employed by an employer in an eligible position, as of July 1, 1997, the election to transfer service must be filed in writing with the department no later than one year from the date they are employed by an employer in an eligible position.

(2) An individual transferring service under this section forfeits the rights to all benefits as a member of the law enforcement officers' and fire fighters' retirement system plan 1 and will be permanently excluded from membership.

(3) Any individual choosing to transfer service under this section will have transferred to their current retirement system and plan: (a) All the individual's accumulated contributions; (b) an amount sufficient to ensure that the employer contribution rate in the individual's current system and plan will not increase due to the transfer; and (c) all applicable months of service, as defined in RCW 41.26.030(14)(a).

(4) If an individual has withdrawn contributions from the law enforcement officers' and fire fighters' retirement system plan 1, the individual may restore the contributions, together with interest as determined by the director, and recover the service represented by the contributions for the sole purpose of transferring service under this

1 section. The contributions must be restored before the transfer can
2 occur and the restoration must be completed within the time limitations
3 specified in subsection (1) of this section.

4 (5) Any service transferred under this section does not apply to
5 the eligibility requirements for military service credit as defined in
6 RCW 41.40.170(3) or 43.43.260(3).

7 (6) If an individual does not meet the time limitations of
8 subsection (1) of this section, the individual may elect to restore any
9 withdrawn contributions and transfer service under this section by
10 paying the amount required under subsection (3)(b) of this section less
11 any employee contributions transferred.

12 **Sec. 3.** RCW 41.26.460 and 2002 c 158 s 7 are each amended to read
13 as follows:

14 (1) Upon retirement for service as prescribed in RCW 41.26.430 or
15 disability retirement under RCW 41.26.470, a member shall elect to have
16 the retirement allowance paid pursuant to the following options,
17 calculated so as to be actuarially equivalent to each other.

18 (a) Standard allowance. A member electing this option shall
19 receive a retirement allowance payable throughout such member's life.
20 However, if the retiree dies before the total of the retirement
21 allowance paid to such retiree equals the amount of such retiree's
22 accumulated contributions at the time of retirement, then the balance
23 shall be paid to the member's estate, or such person or persons, trust,
24 or organization as the retiree shall have nominated by written
25 designation duly executed and filed with the department; or if there be
26 no such designated person or persons still living at the time of the
27 retiree's death, then to the surviving spouse; or if there be neither
28 such designated person or persons still living at the time of death nor
29 a surviving spouse, then to the retiree's legal representative.

30 (b) The department shall adopt rules that allow a member to select
31 a retirement option that pays the member a reduced retirement allowance
32 and upon death, such portion of the member's reduced retirement
33 allowance as the department by rule designates shall be continued
34 throughout the life of and paid to a designated person. Such person
35 shall be nominated by the member by written designation duly executed
36 and filed with the department at the time of retirement. The options

1 adopted by the department shall include, but are not limited to, a
2 joint and one hundred percent survivor option and a joint and fifty
3 percent survivor option.

4 (2)(a) A member, if married, must provide the written consent of
5 his or her spouse to the option selected under this section, except as
6 provided in (b) of this subsection. If a member is married and both
7 the member and member's spouse do not give written consent to an option
8 under this section, the department will pay the member a joint and
9 fifty percent survivor benefit and record the member's spouse as the
10 beneficiary. Such benefit shall be calculated to be actuarially
11 equivalent to the benefit options available under subsection (1) of
12 this section unless spousal consent is not required as provided in (b)
13 of this subsection.

14 (b) If a copy of a dissolution order designating a survivor
15 beneficiary under RCW 41.50.790 has been filed with the department at
16 least thirty days prior to a member's retirement:

17 (i) The department shall honor the designation as if made by the
18 member under subsection (1) of this section; and

19 (ii) The spousal consent provisions of (a) of this subsection do
20 not apply.

21 (3)(a) Any member who retired before January 1, 1996, and who
22 elected to receive a reduced retirement allowance under subsection
23 (1)(b) or (2) of this section is entitled to receive a retirement
24 allowance adjusted in accordance with (b) of this subsection, if they
25 meet the following conditions:

26 (i) The retiree's designated beneficiary predeceases or has
27 predeceased the retiree; and

28 (ii) The retiree provides to the department proper proof of the
29 designated beneficiary's death.

30 (b) The retirement allowance payable to the retiree, as of July 1,
31 1998, or the date of the designated beneficiary's death, whichever
32 comes last, shall be increased by the percentage derived in (c) of this
33 subsection.

34 (c) The percentage increase shall be derived by the following:

35 (i) One hundred percent multiplied by the result of (c)(ii) of this
36 subsection converted to a percent;

37 (ii) Subtract one from the reciprocal of the appropriate joint and
38 survivor option factor;

1 (iii) The joint and survivor option factor shall be from the table
2 in effect as of July 1, 1998.

3 (d) The adjustment under (b) of this subsection shall accrue from
4 the beginning of the month following the date of the designated
5 beneficiary's death or from July 1, 1998, whichever comes last.

6 (4) No later than July 1, 2001, the department shall adopt rules
7 that allow a member additional actuarially equivalent survivor benefit
8 options, and shall include, but are not limited to:

9 (a) (i) A retired member who retired without designating a survivor
10 beneficiary shall have the opportunity to designate their spouse from
11 a postretirement marriage as a survivor during a one-year period
12 beginning one year after the date of the postretirement marriage
13 provided the retirement allowance payable to the retiree is not subject
14 to periodic payments pursuant to a property division obligation as
15 provided for in RCW 41.50.670.

16 (ii) A member who entered into a postretirement marriage prior to
17 the effective date of the rules adopted pursuant to this subsection and
18 satisfies the conditions of (a) (i) of this subsection shall have one
19 year to designate their spouse as a survivor beneficiary following the
20 adoption of the rules.

21 (b) A retired member who elected to receive a reduced retirement
22 allowance under this section and designated a nonspouse as survivor
23 beneficiary shall have the opportunity to remove the survivor
24 designation and have their future benefit adjusted.

25 (c) The department may make an additional charge, if necessary, to
26 ensure that the benefits provided under this subsection remain
27 actuarially equivalent.

28 (5) No later than July 1, 2003, the department shall adopt rules to
29 permit:

30 (a) A court-approved property settlement incident to a court decree
31 of dissolution made before retirement to provide that benefits payable
32 to a member who meets the length of service requirements of RCW
33 41.26.530(1) and the member's divorcing spouse be divided into two
34 separate benefits payable over the life of each spouse.

35 The member shall have available the benefit options of subsection
36 (1) of this section upon retirement, and if remarried at the time of
37 retirement remains subject to the spousal consent requirements of

subsection (2) of this section. Any reductions of the member's benefit subsequent to the division into two separate benefits shall be made solely to the separate benefit of the member.

The nonmember ex spouse shall be eligible to commence receiving their separate benefit upon reaching the ages provided in RCW 41.26.430~~(1)~~ and after filing a written application with the department.

(b) A court-approved property settlement incident to a court decree of dissolution made after retirement may only divide the benefit into two separate benefits payable over the life of each spouse if the nonmember ex spouse was selected as a survivor beneficiary at retirement.

The retired member may later choose the survivor benefit options available in subsection (4) of this section. Any actuarial reductions subsequent to the division into two separate benefits shall be made solely to the separate benefit of the member.

Both the retired member and the nonmember divorced spouse shall be eligible to commence receiving their separate benefits upon filing a copy of the dissolution order with the department in accordance with RCW 41.50.670.

(c) The department may make an additional charge or adjustment if necessary to ensure that the separate benefits provided under this subsection are actuarially equivalent to the benefits payable prior to the decree of dissolution.

Sec. 4. RCW 41.31A.020 and 2000 c 247 s 408 are each amended to read as follows:

(1) On January 1, 2004, and on January 1st of even-numbered years thereafter, the member account of a person meeting the requirements of this section shall be credited by the extraordinary investment gain amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) Any member of the teachers' retirement system plan 3, the Washington school employees' retirement system plan 3, or the public employees' retirement system plan 3 who earned service credit during the twelve-month period from September 1st to August 31st immediately

1 preceding the distribution and had a balance of at least one thousand
2 dollars in their member account on August 31st of the year immediately
3 preceding the distribution; or

4 (b) Any person in receipt of a benefit pursuant to RCW 41.32.875,
5 41.35.680, or 41.40.820; or

6 (c) Any person who is a retiree pursuant to RCW 41.34.020(8) and
7 who:

8 (i) Completed ten service credit years; or

9 (ii) Completed five service credit years, including twelve service
10 months after attaining age fifty-four; or

11 (d) Any teacher who is a retiree pursuant to RCW 41.34.020(8) and
12 who has completed five service credit years by July 1, 1996, under plan
13 2 and who transferred to plan 3 under RCW 41.32.817; or

14 (e) Any classified employee who is a retiree pursuant to RCW
15 41.34.020(8) and who has completed five service credit years by
16 September 1, 2000, and who transferred to plan 3 under RCW 41.35.510;
17 or

18 (f) Any public employee who is a retiree pursuant to RCW
19 (~~41.40.010(29)~~) 41.34.020(8) and who has completed five service
20 credit years by March 1, 2002, and who transferred to plan 3 under RCW
21 41.40.795; or

22 (g) Any person who had a balance of at least one thousand dollars
23 in their member account on August 31st of the year immediately
24 preceding the distribution and who:

25 (i) Completed ten service credit years; or

26 (ii) Completed five service credit years, including twelve service
27 months after attaining age fifty-four; or

28 (h) Any teacher who had a balance of at least one thousand dollars
29 in their member account on August 31st of the year immediately
30 preceding the distribution and who has completed five service credit
31 years by July 1, 1996, under plan 2 and who transferred to plan 3 under
32 RCW 41.32.817; or

33 (i) Any classified employee who had a balance of at least one
34 thousand dollars in their member account on August 31st of the year
35 immediately preceding the distribution and who has completed five
36 service credit years by September 1, 2000, and who transferred to plan
37 3 under RCW 41.35.510; or

(j) Any public employee who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by March 1, 2002, and who transferred to plan 3 under RCW 41.40.795.

(3) The extraordinary investment gain amount shall be calculated as follows:

(a) One-half of the sum of the value of the net assets held in trust for pension benefits in the teachers' retirement system combined plan 2 and 3 fund, the Washington school employees' retirement system combined plan 2 and 3 fund, and the public employees' retirement system combined plan 2 and 3 fund at the close of the previous state fiscal year not including the amount attributable to member accounts;

(b) Multiplied by the amount which the compound average of investment returns on those assets over the previous four state fiscal years exceeds ten percent;

(c) Multiplied by the proportion of:

(i) The sum of the service credit on August 31st of the previous year of all persons eligible for the benefit provided in subsection (1) of this section; to

(ii) The sum of the service credit on August 31st of the previous year of:

(A) All persons eligible for the benefit provided in subsection (1) of this section;

(B) Any person who earned service credit in the teachers' retirement system plan 2, the Washington school employees' retirement system plan 2, or the public employees' retirement system plan 2 during the twelve-month period from September 1st to August 31st immediately preceding the distribution;

(C) Any person in receipt of a benefit pursuant to RCW 41.32.765, 41.35.420, or 41.40.630; and

(D) Any person with five or more years of service in the teachers' retirement system plan 2, the Washington school employees' retirement system plan 2, or the public employees' retirement system plan 2;

(d) Divided proportionally among persons eligible for the benefit provided in subsection (1) of this section on the basis of their service credit total on August 31st of the previous year.

(4) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this distribution not granted prior to that time.

Sec. 5. RCW 41.35.640 and 1998 c 341 s 205 are each amended to read as follows:

Any member or beneficiary eligible to receive a retirement allowance under the provisions of RCW 41.35.680, 41.35.690, or 41.35.710 is eligible to commence receiving a retirement allowance after having filed written application with the department.

(1) Retirement allowances paid to members shall accrue from the first day of the calendar month immediately following such member's separation from employment.

(2) Retirement allowances payable to eligible members no longer in service, but qualifying for such an allowance pursuant to RCW (~~41.35.140~~) 41.35.680 shall accrue from the first day of the calendar month immediately following such qualification.

(3) Disability allowances paid to disabled members shall accrue from the first day of the calendar month immediately following such member's separation from employment for disability.

(4) Retirement allowances paid as death benefits shall accrue from the first day of the calendar month immediately following the member's death.

Sec. 6. RCW 41.40.660 and 2002 c 158 s 13 are each amended to read as follows:

(1) Upon retirement for service as prescribed in RCW 41.40.630 or retirement for disability under RCW 41.40.670, a member shall elect to have the retirement allowance paid pursuant to one of the following options, calculated so as to be actuarially equivalent to each other.

(a) Standard allowance. A member electing this option shall receive a retirement allowance payable throughout such member's life. However, if the retiree dies before the total of the retirement allowance paid to such retiree equals the amount of such retiree's accumulated contributions at the time of retirement, then the balance shall be paid to the member's estate, or such person or persons, trust, or organization as the retiree shall have nominated by written designation duly executed and filed with the department; or if there be

1 no such designated person or persons still living at the time of the
2 retiree's death, then to the surviving spouse; or if there be neither
3 such designated person or persons still living at the time of death nor
4 a surviving spouse, then to the retiree's legal representative.

5 (b) The department shall adopt rules that allow a member to select
6 a retirement option that pays the member a reduced retirement allowance
7 and upon death, such portion of the member's reduced retirement
8 allowance as the department by rule designates shall be continued
9 throughout the life of and paid to a person nominated by the member by
10 written designation duly executed and filed with the department at the
11 time of retirement. The options adopted by the department shall
12 include, but are not limited to, a joint and one hundred percent
13 survivor option and a joint and fifty percent survivor option.

14 (2) (a) A member, if married, must provide the written consent of
15 his or her spouse to the option selected under this section, except as
16 provided in (b) of this subsection. If a member is married and both
17 the member and the member's spouse do not give written consent to an
18 option under this section, the department shall pay a joint and fifty
19 percent survivor benefit calculated to be actuarially equivalent to the
20 benefit options available under subsection (1) of this section unless
21 spousal consent is not required as provided in (b) of this subsection.

22 (b) If a copy of a dissolution order designating a survivor
23 beneficiary under RCW 41.50.790 has been filed with the department at
24 least thirty days prior to a member's retirement:

25 (i) The department shall honor the designation as if made by the
26 member under subsection (1) of this section; and

27 (ii) The spousal consent provisions of (a) of this subsection do
28 not apply.

29 (3) (a) Any member who retired before January 1, 1996, and who
30 elected to receive a reduced retirement allowance under subsection
31 (1) (b) or (2) of this section is entitled to receive a retirement
32 allowance adjusted in accordance with (b) of this subsection, if they
33 meet the following conditions:

34 (i) The retiree's designated beneficiary predeceases or has
35 predeceased the retiree; and

36 (ii) The retiree provides to the department proper proof of the
37 designated beneficiary's death.

1 (b) The retirement allowance payable to the retiree, as of July 1,
2 1998, or the date of the designated beneficiary's death, whichever
3 comes last, shall be increased by the percentage derived in (c) of this
4 subsection.

5 (c) The percentage increase shall be derived by the following:

6 (i) One hundred percent multiplied by the result of (c)(ii) of this
7 subsection converted to a percent;

8 (ii) Subtract one from the reciprocal of the appropriate joint and
9 survivor option factor;

10 (iii) The joint and survivor option factor shall be from the table
11 in effect as of July 1, 1998.

12 (d) The adjustment under (b) of this subsection shall accrue from
13 the beginning of the month following the date of the designated
14 beneficiary's death or from July 1, 1998, whichever comes last.

15 (4) No later than July 1, 2001, the department shall adopt rules
16 that allow a member additional actuarially equivalent survivor benefit
17 options, and shall include, but are not limited to:

18 (a)(i) A retired member who retired without designating a survivor
19 beneficiary shall have the opportunity to designate their spouse from
20 a postretirement marriage as a survivor during a one-year period
21 beginning one year after the date of the postretirement marriage
22 provided the retirement allowance payable to the retiree is not subject
23 to periodic payments pursuant to a property division obligation as
24 provided for in RCW 41.50.670.

25 (ii) A member who entered into a postretirement marriage prior to
26 the effective date of the rules adopted pursuant to this subsection and
27 satisfies the conditions of (a)(i) of this subsection shall have one
28 year to designate their spouse as a survivor beneficiary following the
29 adoption of the rules.

30 (b) A retired member who elected to receive a reduced retirement
31 allowance under this section and designated a nonspouse as survivor
32 beneficiary shall have the opportunity to remove the survivor
33 designation and have their future benefit adjusted.

34 (c) The department may make an additional charge, if necessary, to
35 ensure that the benefits provided under this subsection remain
36 actuarially equivalent.

37 (5) No later than July 1, 2003, the department shall adopt rules to
38 permit:

1 (a) A court-approved property settlement incident to a court decree
2 of dissolution made before retirement to provide that benefits payable
3 to a member who meets the length of service requirements of RCW
4 41.40.720 and the member's divorcing spouse be divided into two
5 separate benefits payable over the life of each spouse.

6 The member shall have available the benefit options of subsection
7 (1) of this section upon retirement, and if remarried at the time of
8 retirement remains subject to the spousal consent requirements of
9 subsection (2) of this section. Any reductions of the member's benefit
10 subsequent to the division into two separate benefits shall be made
11 solely to the separate benefit of the member.

12 The nonmember ex spouse shall be eligible to commence receiving
13 their separate benefit upon reaching the age provided in RCW
14 41.40.630(1) and after filing a written application with the
15 department.

16 (b) A court-approved property settlement incident to a court decree
17 of dissolution made after retirement may only divide the benefit into
18 two separate benefits payable over the life of each spouse if the
19 nonmember ex spouse was selected as a survivor beneficiary at
20 retirement.

21 The retired member may later choose the survivor benefit options
22 available in subsection (4) of this section. Any actuarial reductions
23 subsequent to the division into two separate benefits shall be made
24 solely to the separate benefit of the member.

25 Both the retired member and the nonmember divorced spouse shall be
26 eligible to commence receiving their separate benefits upon filing a
27 copy of the dissolution order with the department in accordance with
28 RCW 41.50.670.

29 ~~(c) ((Any benefit distributed pursuant to chapter 41.31A RCW after~~
30 ~~the date of the dissolution order creating separate benefits for a~~
31 ~~member and nonmember ex spouse shall be paid solely to the member.~~

32 ~~—(d)—~~) The department may make an additional charge or adjustment if
33 necessary to ensure that the separate benefits provided under this
34 subsection are actuarially equivalent to the benefits payable prior to
35 the decree of dissolution.

36 **Sec. 7.** RCW 41.40.748 and 2002 c 269 s 1 are each amended to read
37 as follows:

(1) Active members of the Washington state patrol retirement system who have previously established service credit in the public employees' retirement system plan 2 while employed in the state patrol as a commercial vehicle enforcement officer, and who became a commissioned officer after July 1, 2000, and prior to June 30, 2001, have the following options:

(a) Remain a member of the public employees' retirement system; or

(b) Transfer service credit earned under the retirement system as a commercial vehicle enforcement officer to the Washington state patrol retirement system by making an irrevocable choice filed in writing with the department of retirement systems within one year of the department's announcement of the ability to make such a transfer.

(2)(a) Any commissioned officer choosing to transfer under this section shall have transferred from the retirement system to the Washington state patrol retirement system:

(i) All the employee's applicable accumulated contributions plus interest, and an equal amount of employer contributions attributed to such employee; and

(ii) All applicable months of service as a commercial vehicle enforcement officer credited to the employee under this chapter as though that service was rendered as a member of the Washington state patrol retirement system.

(b) For the applicable period of service, the employee shall pay:

(i) The difference between the contributions the employee paid to the retirement system, and the contributions which would have been paid by the employee had the employee been a member of the Washington state patrol retirement system, plus interest as determined by the director. This payment shall be made no later than December 31, 2010, or the date of retirement, whichever comes first;

(ii) The difference between the employer contributions paid to the public employees' retirement system, and the employer contributions which would have been payable to the Washington state patrol retirement system; and

(iii) An amount sufficient to ensure that the funding status of the Washington state patrol retirement system will not change due to this transfer.

(c) If the payment required by this subsection is not paid in full by the deadline, the transferred service credit shall not be used to

determine eligibility for benefits nor to calculate benefits under the Washington state patrol retirement system. In such case, the ~~((additional employee and employer contributions))~~ employee's accumulated contributions plus interest transferred under this subsection, and any payments made under this subsection, shall be refunded to the employee(~~(, and))~~). The employer shall be entitled to a credit for the ~~((payments made))~~ employer contributions transferred under ~~((a) of))~~ this subsection.

(d) An individual who transfers service credit and contributions under this subsection is permanently excluded from the public employees' retirement system for all service as a commercial vehicle enforcement officer.

Sec. 8. RCW 41.40.801 and 2000 c 247 s 305 are each amended to read as follows:

Any member or beneficiary eligible to receive a retirement allowance under the provisions of RCW 41.40.820, 41.40.825, or 41.40.835 is eligible to commence receiving a retirement allowance after having filed written application with the department.

(1) Retirement allowances paid to members shall accrue from the first day of the calendar month immediately following such member's separation from employment.

(2) Retirement allowances payable to eligible members no longer in service, but qualifying for such an allowance pursuant to RCW ~~((41.40.068))~~ 41.40.820 shall accrue from the first day of the calendar month immediately following such qualification.

(3) Disability allowances paid to disabled members shall accrue from the first day of the calendar month immediately following such member's separation from employment for disability.

(4) Retirement allowances paid as death benefits shall accrue from the first day of the calendar month immediately following the member's death.

Sec. 9. RCW 41.40.845 and 2002 c 158 s 14 are each amended to read as follows:

(1) Upon retirement for service as prescribed in RCW 41.40.820 or retirement for disability under RCW 41.40.825, a member shall elect to

1 have the retirement allowance paid pursuant to one of the following
2 options, calculated so as to be actuarially equivalent to each other.

3 (a) Standard allowance. A member electing this option shall
4 receive a retirement allowance payable throughout such member's life.
5 Upon the death of the member, the member's benefits shall cease.

6 (b) The department shall adopt rules that allow a member to select
7 a retirement option that pays the member a reduced retirement allowance
8 and upon death, such portion of the member's reduced retirement
9 allowance as the department by rule designates shall be continued
10 throughout the life of and paid to a person nominated by the member by
11 written designation duly executed and filed with the department at the
12 time of retirement. The options adopted by the department shall
13 include, but are not limited to, a joint and one hundred percent
14 survivor option and a joint and fifty percent survivor option.

15 (2)(a) A member, if married, must provide the written consent of
16 his or her spouse to the option selected under this section, except as
17 provided in (b) of this subsection. If a member is married and both
18 the member and the member's spouse do not give written consent to an
19 option under this section, the department shall pay a joint and fifty
20 percent survivor benefit calculated to be actuarially equivalent to the
21 benefit options available under subsection (1) of this section unless
22 spousal consent is not required as provided in (b) of this subsection.

23 (b) If a copy of a dissolution order designating a survivor
24 beneficiary under RCW 41.50.790 has been filed with the department at
25 least thirty days prior to a member's retirement:

26 (i) The department shall honor the designation as if made by the
27 member under subsection (1) of this section; and

28 (ii) The spousal consent provisions of (a) of this subsection do
29 not apply.

30 ~~(3) ((The department shall adopt rules that allow a member~~
31 ~~additional actuarially equivalent survivor benefit options, and shall~~
32 ~~include, but are not limited to:~~

33 ~~— (a)(i) A retired member who retired without designating a survivor~~
34 ~~beneficiary shall have the opportunity to designate their spouse from~~
35 ~~a postretirement marriage as a survivor during a one-year period~~
36 ~~beginning one year after the date of the postretirement marriage~~
37 ~~provided the retirement allowance payable to the retiree is not subject~~

1 ~~to periodic payments pursuant to a property division obligation as~~
2 ~~provided for in RCW 41.50.670.~~

3 ~~—— (ii) A member who entered into a postretirement marriage prior to~~
4 ~~the effective date of the rules adopted under this section and~~
5 ~~satisfies the conditions of (a) (i) of this subsection shall have one~~
6 ~~year to designate their spouse as a survivor beneficiary following the~~
7 ~~adoption of the rules.~~

8 ~~—— (b) A retired member who elected to receive a reduced retirement~~
9 ~~allowance under this section and designated a nonspouse as survivor~~
10 ~~beneficiary shall have the opportunity to remove the survivor~~
11 ~~designation and have their future benefit adjusted.~~

12 ~~—— (c) The department may make an additional charge, if necessary, to~~
13 ~~ensure that the benefits provided under this subsection remain~~
14 ~~actuarially equivalent.~~

15 ~~—— (4))~~ No later than July 1, 2002, the department shall adopt rules
16 that allow a member additional actuarially equivalent survivor benefit
17 options, and shall include, but are not limited to:

18 (a) (i) A retired member who retired without designating a survivor
19 beneficiary shall have the opportunity to designate their spouse from
20 a postretirement marriage as a survivor during a one-year period
21 beginning one year after the date of the postretirement marriage
22 provided the retirement allowance payable to the retiree is not subject
23 to periodic payments pursuant to a property division obligation as
24 provided for in RCW 41.50.670.

25 (ii) A member who entered into a postretirement marriage prior to
26 the effective date of the rules adopted under this section and
27 satisfies the conditions of (a) (i) of this subsection shall have one
28 year to designate their spouse as a survivor beneficiary following the
29 adoption of the rules.

30 (b) A retired member who elected to receive a reduced retirement
31 allowance under this section and designated a nonspouse as survivor
32 beneficiary shall have the opportunity to remove the survivor
33 designation and have their future benefit adjusted.

34 (c) The department may make an additional charge, if necessary, to
35 ensure that the benefits provided under this subsection remain
36 actuarially equivalent.

37 ((+5)) (4) No later than July 1, 2003, the department shall adopt
38 rules to permit:

1 (a) A court-approved property settlement incident to a court decree
2 of dissolution made before retirement to provide that benefits payable
3 to a member who meets the length of service requirements of RCW
4 41.40.820(1) and the member's divorcing spouse be divided into two
5 separate benefits payable over the life of each spouse.

6 The member shall have available the benefit options of subsection
7 (1) of this section upon retirement, and if remarried at the time of
8 retirement remains subject to the spousal consent requirements of
9 subsection (2) of this section. Any reductions of the member's benefit
10 subsequent to the division into two separate benefits shall be made
11 solely to the separate benefit of the member.

12 The nonmember ex spouse shall be eligible to commence receiving
13 their separate benefit upon reaching the age provided in RCW
14 41.40.820(1) and after filing a written application with the
15 department.

16 (b) A court-approved property settlement incident to a court decree
17 of dissolution made after retirement may only divide the benefit into
18 two separate benefits payable over the life of each spouse if the
19 nonmember ex spouse was selected as a survivor beneficiary at
20 retirement.

21 The retired member may later choose the survivor benefit options
22 available in subsection (~~((4))~~) (3) of this section. Any actuarial
23 reductions subsequent to the division into two separate benefits shall
24 be made solely to the separate benefit of the member.

25 Both the retired member and the nonmember divorced spouse shall be
26 eligible to commence receiving their separate benefits upon filing a
27 copy of the dissolution order with the department in accordance with
28 RCW 41.50.670.

29 (c) Any benefit distributed under chapter 41.31A RCW after the date
30 of the dissolution order creating separate benefits for a member and
31 nonmember ex spouse shall be paid solely to the member.

32 (d) The department may make an additional charge or adjustment if
33 necessary to ensure that the separate benefits provided under this
34 subsection are actuarially equivalent to the benefits payable prior to
35 the decree of dissolution.

36 **Sec. 10.** RCW 41.45.060 and 2002 c 26 s 2 are each amended to read
37 as follows:

1 (1) The state actuary shall provide actuarial valuation results
2 based on the economic assumptions and asset value smoothing technique
3 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030
4 or 41.45.035.

5 (2) Not later than September 30, 2002, and every two years
6 thereafter, consistent with the economic assumptions and asset value
7 smoothing technique included in RCW 41.45.035 or adopted under RCW
8 41.45.030 or 41.45.035, the council shall adopt and may make changes
9 to:

10 (a) A basic state contribution rate for the law enforcement
11 officers' and fire fighters' retirement system;

12 (b) Basic employer contribution rates for the public employees'
13 retirement system, the teachers' retirement system, and the Washington
14 state patrol retirement system to be used in the ensuing biennial
15 period; and

16 (c) A basic employer contribution rate for the school employees'
17 retirement system for funding both that system and the public
18 employees' retirement system plan 1.

19 The contribution rates adopted by the council shall be subject to
20 revision by the legislature.

21 (3) The employer and state contribution rates adopted by the
22 council shall be the level percentages of pay that are needed:

23 (a) To fully amortize the total costs of the public employees'
24 retirement system plan 1, the teachers' retirement system plan 1, and
25 the law enforcement officers' and fire fighters' retirement system plan
26 1 not later than June 30, 2024(~~(, except as provided in subsection (5)~~
27 ~~of this section)~~);

28 (b) To also continue to fully fund the public employees' retirement
29 system plans 2 and 3, the teachers' retirement system plans 2 and 3,
30 the school employees' retirement system plans 2 and 3, and the law
31 enforcement officers' and fire fighters' retirement system plan 2 in
32 accordance with RCW 41.45.061, 41.45.067, and this section; and

33 (c) For the law enforcement officers' and fire fighters' system
34 plan 2 the rate charged to employers, except as provided in RCW
35 41.26.450, shall be thirty percent of the cost of the retirement system
36 and the rate charged to the state shall be twenty percent of the cost
37 of the retirement system.

1 (4) The aggregate actuarial cost method shall be used to calculate
2 a combined plan 2 and 3 employer contribution rate and a Washington
3 state patrol retirement system contribution rate.

4 (5) The council shall immediately notify the directors of the
5 office of financial management and department of retirement systems of
6 the state and employer contribution rates adopted. The rates shall be
7 effective for the ensuing biennial period, subject to any legislative
8 modifications.

9 (6) The director of the department of retirement systems shall
10 collect the rates established in RCW 41.45.053 through June 30, 2003.
11 Thereafter, the director shall collect those rates adopted by the
12 council. The rates established in RCW 41.45.053, or by the council,
13 shall be subject to revision by the council.

14 **Sec. 11.** RCW 41.50.110 and 1998 c 341 s 508 are each amended to
15 read as follows:

16 (1) Except as provided by RCW 41.50.255 and subsection (6) of this
17 section, all expenses of the administration of the department ~~((and))~~,
18 the expenses of administration of the retirement systems, and the
19 expenses of the administration of the office of the state actuary
20 created in chapters 2.10, 2.12, 41.26, 41.32, 41.40, 41.34, 41.35,
21 ~~((and))~~ 43.43, and 44.44 RCW shall be paid from the department of
22 retirement systems expense fund.

23 (2) In order to reimburse the department of retirement systems
24 expense fund on an equitable basis the department shall ascertain and
25 report to each employer, as defined in RCW 41.26.030, 41.32.010,
26 41.35.010, or 41.40.010, the sum necessary to defray its proportional
27 share of the entire expense of the administration of the retirement
28 system that the employer participates in during the ensuing biennium or
29 fiscal year whichever may be required. Such sum is to be computed in
30 an amount directly proportional to the estimated entire expense of the
31 administration as the ratio of monthly salaries of the employer's
32 members bears to the total salaries of all members in the entire
33 system. It shall then be the duty of all such employers to include in
34 their budgets or otherwise provide the amounts so required.

35 (3) The department shall compute and bill each employer, as defined
36 in RCW 41.26.030, 41.32.010, 41.35.010, or 41.40.010, at the end of
37 each month for the amount due for that month to the department of

1 retirement systems expense fund and the same shall be paid as are its
2 other obligations. Such computation as to each employer shall be made
3 on a percentage rate of salary established by the department. However,
4 the department may at its discretion establish a system of billing
5 based upon calendar year quarters in which event the said billing shall
6 be at the end of each such quarter.

7 (4) The director may adjust the expense fund contribution rate for
8 each system at any time when necessary to reflect unanticipated costs
9 or savings in administering the department.

10 (5) An employer who fails to submit timely and accurate reports to
11 the department may be assessed an additional fee related to the
12 increased costs incurred by the department in processing the deficient
13 reports. Fees paid under this subsection shall be deposited in the
14 retirement system expense fund.

15 (a) Every six months the department shall determine the amount of
16 an employer's fee by reviewing the timeliness and accuracy of the
17 reports submitted by the employer in the preceding six months. If
18 those reports were not both timely and accurate the department may
19 prospectively assess an additional fee under this subsection.

20 (b) An additional fee assessed by the department under this
21 subsection shall not exceed fifty percent of the standard fee.

22 (c) The department shall adopt rules implementing this section.

23 (6) Expenses other than those under RCW 41.34.060(~~(+27)~~) (3) shall
24 be paid pursuant to subsection (1) of this section.

25 **Sec. 12.** RCW 41.50.700 and 2002 c 158 s 6 are each amended to read
26 as follows:

27 (1) Except under subsection (3) of this section and RCW
28 41.26.460(5), 41.32.530(5), 41.32.785(5), 41.32.851(4), 41.35.220(4),
29 41.40.188(5), 41.40.660(5), 41.40.845(4), 43.43.271(4), and 41.34.080,
30 the department's obligation to provide direct payment of a property
31 division obligation to an obligee under RCW 41.50.670 shall cease upon
32 the death of the obligee or upon the death of the obligor, whichever
33 comes first. However, if an obligor dies and is eligible for a lump
34 sum death benefit, the department shall be obligated to provide direct
35 payment to the obligee of all or a portion of the withdrawal of
36 accumulated contributions pursuant to a court order that complies with
37 RCW 41.50.670.

(2) The direct payment of a property division obligation to an obligee under RCW 41.50.670 shall be paid as a deduction from the member's periodic retirement payment. An obligee may not direct the department to withhold any funds from such payment.

(3) The department's obligation to provide direct payment to a nonmember ex spouse from a preretirement divorce meeting the criteria of RCW 41.26.162(2) or 43.43.270(2) may continue for the life of the member's surviving spouse qualifying for benefits under RCW 41.26.160, 41.26.161, or 43.43.270(2). Upon the death of the member's surviving spouse qualifying for benefits under RCW 41.26.160, 41.26.161, or 43.43.270(2), the department's obligation under this subsection shall cease. The department's obligation to provide direct payment to a nonmember ex spouse qualifying for a continued split benefit payment under RCW 41.26.162(3) shall continue for the life of that nonmember ex spouse.

Sec. 13. RCW 41.54.030 and 1998 c 341 s 703 are each amended to read as follows:

(1) A dual member may combine service in all systems for the purpose of:

(a) Determining the member's eligibility to receive a service retirement allowance; and

(b) Qualifying for a benefit under RCW 41.32.840(2) ~~((or))~~, 41.35.620, or 41.40.790.

(2) A dual member who is eligible to retire under any system may elect to retire from all the member's systems and to receive service retirement allowances calculated as provided in this section. Each system shall calculate the allowance using its own criteria except that the member shall be allowed to substitute the member's base salary from any system as the compensation used in calculating the allowance.

(3) The service retirement allowances from a system which, but for this section, would not be allowed to be paid at this date based on the dual member's age may be received immediately or deferred to a later date. The allowances shall be actuarially adjusted from the earliest age upon which the combined service would have made such dual member eligible in that system.

(4) The service retirement eligibility requirements of RCW

1 41.40.180 shall apply to any dual member whose prior system is plan 1
2 of the public employees' retirement system established under chapter
3 41.40 RCW.

4 **Sec. 14.** RCW 43.43.271 and 2002 c 158 s 16 are each amended to
5 read as follows:

6 (1) A member commissioned on or after January 1, 2003, upon
7 retirement for service as prescribed in RCW 43.43.250 (~~(or disability~~
8 ~~retirement under RCW 43.43.040,))~~) shall elect to have the retirement
9 allowance paid pursuant to the following options, calculated so as to
10 be actuarially equivalent to each other.

11 (a) Standard allowance. A member electing this option shall
12 receive a retirement allowance payable throughout the member's life.
13 However, if the retiree dies before the total of the retirement
14 allowance paid to the retiree equals the amount of the retiree's
15 accumulated contributions at the time of retirement, then the balance
16 shall be paid to the member's estate, or such person or persons, trust,
17 or organization as the retiree shall have nominated by written
18 designation duly executed and filed with the department; or if there be
19 no such designated person or persons still living at the time of the
20 retiree's death, then to the surviving spouse; or if there be neither
21 such designated person or persons still living at the time of death nor
22 a surviving spouse, then to the retiree's legal representative.

23 (b) The department shall adopt rules that allow a member to select
24 a retirement option that pays the member a reduced retirement allowance
25 and upon death, such portion of the member's reduced retirement
26 allowance as the department by rule designates shall be continued
27 throughout the life of and paid to a designated person. Such person
28 shall be nominated by the member by written designation duly executed
29 and filed with the department at the time of retirement. The options
30 adopted by the department shall include, but are not limited to, a
31 joint and one hundred percent survivor option and a joint and fifty
32 percent survivor option.

33 (2)(a) A member, if married, must provide the written consent of
34 his or her spouse to the option selected under this section, except as
35 provided in (b) of this subsection. If a member is married and both
36 the member and member's spouse do not give written consent to an option
37 under this section, the department will pay the member a joint and

1 fifty percent survivor benefit and record the member's spouse as the
2 beneficiary. This benefit shall be calculated to be actuarially
3 equivalent to the benefit options available under subsection (1) of
4 this section unless spousal consent is not required as provided in (b)
5 of this subsection.

6 (b) If a copy of a dissolution order designating a survivor
7 beneficiary under RCW 41.50.790 has been filed with the department at
8 least thirty days prior to a member's retirement:

9 (i) The department shall honor the designation as if made by the
10 member under subsection (1) of this section; and

11 (ii) The spousal consent provisions of (a) of this subsection do
12 not apply.

13 (3) No later than January 1, 2003, the department shall adopt rules
14 that allow a member additional actuarially equivalent survivor benefit
15 options, and shall include, but are not limited to:

16 (a) (i) A retired member who retired without designating a survivor
17 beneficiary shall have the opportunity to designate their spouse from
18 a postretirement marriage as a survivor during a one-year period
19 beginning one year after the date of the postretirement marriage
20 provided the retirement allowance payable to the retiree is not subject
21 to periodic payments pursuant to a property division obligation as
22 provided for in RCW 41.50.670.

23 (ii) A member who entered into a postretirement marriage prior to
24 the effective date of the rules adopted pursuant to this subsection and
25 satisfies the conditions of (a) (i) of this subsection shall have one
26 year to designate their spouse as a survivor beneficiary following the
27 adoption of the rules.

28 (b) A retired member who elected to receive a reduced retirement
29 allowance under this section and designated a nonspouse as survivor
30 beneficiary shall have the opportunity to remove the survivor
31 designation and have their future benefit adjusted.

32 (c) The department may make an additional charge, if necessary, to
33 ensure that the benefits provided under this subsection remain
34 actuarially equivalent.

35 (4) No later than July 1, 2003, the department shall adopt rules to
36 permit:

37 (a) A court-approved property settlement incident to a court decree
38 of dissolution made before retirement to provide that benefits payable

1 to a member who has completed at least five years of service and the
2 member's divorcing spouse be divided into two separate benefits payable
3 over the life of each spouse.

4 The member shall have available the benefit options of subsection
5 (1) of this section upon retirement, and if remarried at the time of
6 retirement remains subject to the spousal consent requirements of
7 subsection (2) of this section. Any reductions of the member's benefit
8 subsequent to the division into two separate benefits shall be made
9 solely to the separate benefit of the member.

10 The nonmember ex spouse shall be eligible to commence receiving
11 their separate benefit upon reaching the ages provided in RCW
12 43.43.250(2) and after filing a written application with the
13 department.

14 (b) A court-approved property settlement incident to a court decree
15 of dissolution made after retirement may only divide the benefit into
16 two separate benefits payable over the life of each spouse if the
17 nonmember ex spouse was selected as a survivor beneficiary at
18 retirement.

19 The retired member may later choose the survivor benefit options
20 available in subsection (3) of this section. Any actuarial reductions
21 subsequent to the division into two separate benefits shall be made
22 solely to the separate benefit of the member.

23 Both the retired member and the nonmember divorced spouse shall be
24 eligible to commence receiving their separate benefits upon filing a
25 copy of the dissolution order with the department in accordance with
26 RCW 41.50.670.

27 (c) The department may make an additional charge or adjustment if
28 necessary to ensure that the separate benefits provided under this
29 subsection are actuarially equivalent to the benefits payable prior to
30 the decree of dissolution.

31 **Sec. 15.** RCW 43.43.295 and 2001 c 329 s 7 are each amended to read
32 as follows:

33 (1) For members commissioned on or after January 1, 2003, except as
34 provided in RCW 11.07.010, if a member or a vested member who has not
35 completed at least ten years of service dies, the amount of the
36 accumulated contributions standing to such member's credit in the
37 retirement system at the time of such member's death, less any amount

1 identified as owing to an obligee upon withdrawal of accumulated
2 contributions pursuant to a court order filed under RCW 41.50.670,
3 shall be paid to the member's estate, or such person or persons, trust,
4 or organization as the member shall have nominated by written
5 designation duly executed and filed with the department. ~~((If there be
6 no such designated person or persons still living at the time of the
7 member's death, such member's accumulated contributions standing to
8 such member's credit in the retirement system, less any amount
9 identified as owing to an obligee upon withdrawal of accumulated
10 contributions pursuant to a court order filed under RCW 41.50.670,
11 shall be paid to the member's estate, or such person or persons, trust,
12 or organization as the member shall have nominated by written
13 designation duly executed and filed with the department.))~~ If there be
14 no such designated person or persons still living at the time of the
15 member's death, such member's accumulated contributions standing to
16 such member's credit in the retirement system, less any amount
17 identified as owing to an obligee upon withdrawal of accumulated
18 contributions pursuant to a court order filed under RCW 41.50.670,
19 shall be paid to the member's surviving spouse as if in fact such
20 spouse had been nominated by written designation, or if there be no
21 such surviving spouse, then to such member's legal representatives.

22 (2) If a member who is eligible for retirement or a member who has
23 completed at least ten years of service dies, the surviving spouse or
24 eligible child or children shall elect to receive either:

25 (a) A retirement allowance computed as provided for in RCW
26 43.43.260, actuarially reduced by the amount of any lump sum benefit
27 identified as owing to an obligee upon withdrawal of accumulated
28 contributions pursuant to a court order filed under RCW 41.50.670 and
29 actuarially adjusted to reflect a joint and one hundred percent
30 survivor option under RCW 43.43.278 and if the member was not eligible
31 for normal retirement at the date of death a further reduction from age
32 fifty-five or when the member could have attained twenty-five years of
33 service, whichever is less; if a surviving spouse who is receiving a
34 retirement allowance dies leaving a child or children of the member
35 under the age of majority, then such child or children shall continue
36 to receive an allowance in an amount equal to that which was being
37 received by the surviving spouse, share and share alike, until such
38 child or children reach the age of majority; if there is no surviving

1 spouse eligible to receive an allowance at the time of the member's
2 death, such member's child or children under the age of majority shall
3 receive an allowance share and share alike calculated under this
4 section making the assumption that the ages of the spouse and member
5 were equal at the time of the member's death; or

6 (b) (i) The member's accumulated contributions, less any amount
7 identified as owing to an obligee upon withdrawal of accumulated
8 contributions pursuant to a court order filed under RCW 41.50.670; or

9 (ii) If the member dies, one hundred fifty percent of the member's
10 accumulated contributions, less any amount identified as owing to an
11 obligee upon withdrawal of accumulated contributions pursuant to a
12 court order filed under RCW 41.50.670. Any accumulated contributions
13 attributable to restorations made under RCW 41.50.165(2) shall be
14 refunded at one hundred percent.

15 (3) If a member who is eligible for retirement or a member who has
16 completed at least ten years of service dies, and is not survived by a
17 spouse or an eligible child, then the accumulated contributions
18 standing to the member's credit, less any amount identified as owing to
19 an obligee upon withdrawal of accumulated contributions pursuant to a
20 court order filed under RCW 41.50.670, shall be paid:

21 (a) To an estate, a person or persons, trust, or organization as
22 the member shall have nominated by written designation duly executed
23 and filed with the department; or

24 (b) If there is no such designated person or persons still living
25 at the time of the member's death, then to the member's legal
26 representatives.

27 **Sec. 16.** RCW 44.44.040 and 1987 c 25 s 3 are each amended to read
28 as follows:

29 The office of the state actuary shall have the following powers and
30 duties:

31 (1) Perform all actuarial services for the department of retirement
32 systems, including all studies required by law. ~~((Reimbursement for
33 such services shall be made to the state actuary pursuant to the
34 provisions of RCW 39.34.130 as now or hereafter amended.))~~

35 (2) Advise the legislature and the governor regarding pension
36 benefit provisions, and funding policies and investment policies of the
37 state investment board.

1 (3) Consult with the legislature and the governor concerning
2 determination of actuarial assumptions used by the department of
3 retirement systems.

4 (4) Prepare a report, to be known as the actuarial fiscal note, on
5 each pension bill introduced in the legislature which briefly explains
6 the financial impact of the bill. The actuarial fiscal note shall
7 include: (a) The statutorily required contribution for the biennium
8 and the following twenty-five years; (b) the biennial cost of the
9 increased benefits if these exceed the required contribution; and (c)
10 any change in the present value of the unfunded accrued benefits. An
11 actuarial fiscal note shall also be prepared for all amendments which
12 are offered in committee or on the floor of the house of
13 representatives or the senate to any pension bill. However, a majority
14 of the members present may suspend the requirement for an actuarial
15 fiscal note for amendments offered on the floor of the house of
16 representatives or the senate.

17 (5) Provide such actuarial services to the legislature as may be
18 requested from time to time.

19 (6) Provide staff and assistance to the committee established under
20 RCW ((~~46.44.050~~)) 44.44.050.

21 NEW SECTION. **Sec. 17.** Section 4 of this act takes effect January
22 1, 2004.

--- END ---

TRS 1 Extended School Year

Background:

Members of the Teachers' Retirement System Plan 1 use an average annual salary from their two highest consecutive fiscal years for average final compensation calculations. The fiscal year is defined in TRS Plan 1 as running from July 1st to June 31st of the following year. A small number of TRS Plan 1 teachers work in extended year schools which extend beyond June 31st. The mismatch of the fiscal year and extended school year could result in a small difference in the TRS Plan 1 average annual salary and resulting pension amount.

Committee Activity:

Presentation:

August 14, 2002, Full Committee Meeting

October, 16, 2002, Full Committee Meeting

Proposal Approved:

November, 13, 2002

Recommendation to Legislature:

Permit members of the Teachers' Retirement System Plan 1 to use two consecutive extended school years, as defined by their school district, in lieu of two consecutive fiscal years in calculating their average final compensation.

Staff Contact:

Robert Wm. Baker - 586-9237 - baker_bo@leg.wa.gov

TRS 1 Extended School Year

Issue Summary

Issue:

Members of the Teachers' Retirement System, plan 1 (TRS plan 1) base their retirement benefit on their years of service credit multiplied by their average earnable compensation in their two highest compensated consecutive years, up to a maximum of sixty percent. Earnable compensation for TRS plan 1 members is defined as all wages paid to the member for services rendered during a fiscal year, which for teachers runs from July 1 to June 30.

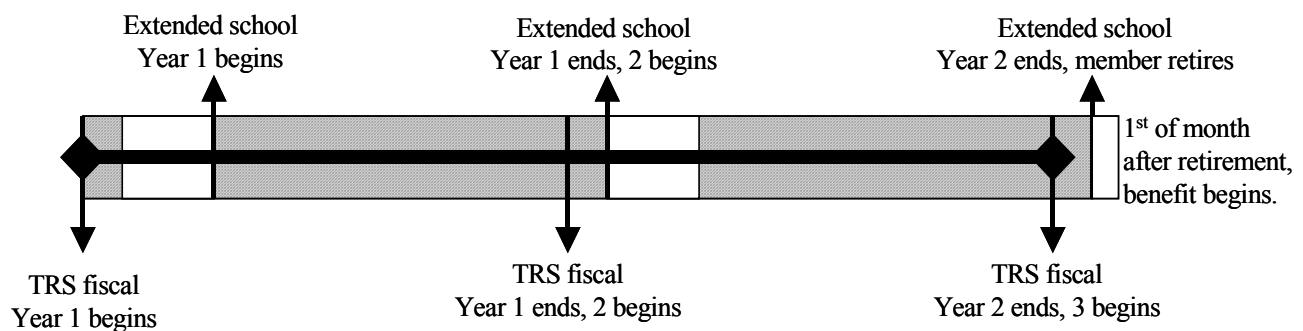
Some teachers work in extended school years which may run until mid July. Recent data supplied by the Superintendent of Public Instruction indicates that about ten school districts have one or more schools that operate on these extended calendars. The difference between the teachers fiscal year and the extended school year may have several effects on TRS plan 1 members benefits.

Analysis:

A. *Extended school year AFC issue*

When members retire in TRS plan 1, RCW 41.32.498 states that their pension allowance shall be equal to their average earnable compensation for their two highest consecutive years of service. RCW 41.32.010(10)(a) specifies that "earnable compensation" is all wages paid for services rendered during the fiscal year.

Illustration of the TRS plan 1 AFC period, Fiscal Year, and an Example Extended School Year



Marks the period used for calculating TRS plan 1 average final compensation, the two highest fiscal years.

The fiscal year for teachers' runs from July 1st to June 30th of the following year, as set in RCW 41.32.010(12). For teachers that are on a conventional school year schedule, this typically falls in the middle of their summer, as their school year may typically run from late August until mid-June of each year.

A difference in the timing of the end of the statutory fiscal year and the end of the extended school year may result in different earnable compensation amounts for TRS plan 1 members whose annual salary is the same, depending on whether they teach on traditional or extended school-year calendars.

If a TRS plan 1 member retires at the end of an extended school year that runs beyond the end of the fiscal year, the highest two consecutive school years of compensation may not include the final weeks of their career compensation - these fall into a fiscal year during which the member worked only a short period of time.

The Impact of Extended School Year "Look-back" on TRS plan 1 Pension for a typical 2001 retiree

	Conventional School Year		Extended School Year		Difference in Pension amount
Retirement Date	7/1/01		8/1/01		-
AFC - using look-back on final two weeks of extended year pay.	\$53,426		\$53,201		\$225 in AFC
Annual (monthly) pension for 15 years of service	\$16,028	(\$1336)	\$15,961	(\$1330)	\$67 (\$5.60)
Annual (monthly) pension for 30 years of service	\$32,055	(\$2671)	\$31,921	(\$2660)	\$134 (\$11.20)

Instead of these last two weeks, the member includes the two weeks from the "beginning" of the fiscal year - the end of their extended school year - from the year before last. This process of including the weeks taught in the prior school year, but in one of the member's two highest fiscal years that are used for calculating their average final compensation (AFC), is often referred to as the "look-back" process.

As illustrated on the table "The Impact of Extended School Year "Look-back" a teacher who retires" with a typical AFC of about \$53,000 and 30 years of service, the effect of the look-back during years of average salary increases the effect could be to reduce their monthly pension amount by approximately \$11. For a similarly situated teacher with fifteen years of service, that amount would be half, or about \$6.

In plan 2/3 the rules for application and the effective date of retirement negate any difference for teachers on conventional school year calendars or extended school year calendars. This is because the allowance in plan 2 and 3 is calculated on the basis of the "average final compensation" for plan 2 and 3 members, defined as the member's average earnable compensation over the member's highest consecutive sixty service credit months.

This monthly determination in plan 2/3, rather than the annual fiscal year determination in plan 1 effectively eliminates the effects of the extended school year on members of the newer plans.

B. *One Month Later Start to Retirement Benefit - Plan 1*

For a conventional school year TRS 1 teacher that finishes their final contract in mid-June, retirement benefits may begin on July 1st of that year. This is consistent with the rule that benefits begin payment on the first of the month following the month in which the member terminates service. This rule is contained in WAC 415-112-520, interpreting RCW 41.32.480.

Because they retire one month later, teachers similarly situated except for one being in an extended school year program would in a sense receive one less benefit payment during their initial year of retirement. In the above example this amount would be about \$2660 for a teacher with 30 years of service.

In plan 2 and plan 3, a teacher typically does not start their benefit until the September following their retirement, regardless of whether their final school year ends in June or July. The fiscal year definition used in TRS 1 is not used for pensions in the newer plans. A teacher from these plans does not receive service credit for the entire school year, and therefore a reduced benefit, unless their retirement begins at the end of the school year - September through August.

C. *Possible Approach*

TRS plan 1 teachers in extended school year programs could have their average final compensation calculated on the greater of either the current formula of their two highest consecutive fiscal years, or the two highest consecutive extended school years as defined by their school district. This would account for the possible adverse effect of the fiscal year determination on their benefits, but would not address the issue of their benefit starting one month later than conventional school year TRS plan 1 members.

D. *Executive Committee Proposal*

Permit TRS plan 1 teachers in extended school year programs to have either two consecutive fiscal years or two consecutive extended school years, as defined by their school districts, used in the calculation of their average final compensation.

1 AN ACT Relating to allowing members of the teachers' retirement
2 system plan 1 to use extended school years for calculation of their
3 earnable compensation; and amending RCW 41.32.010.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 41.32.010 and 1997 c 254 s 3 are each amended to read
6 as follows:

7 As used in this chapter, unless a different meaning is plainly
8 required by the context:

9 (1)(a) "Accumulated contributions" for plan 1 members, means the
10 sum of all regular annuity contributions and, except for the purpose of
11 withdrawal at the time of retirement, any amount paid under RCW
12 41.50.165(2) with regular interest thereon.

13 (b) "Accumulated contributions" for plan 2 members, means the sum
14 of all contributions standing to the credit of a member in the member's
15 individual account, including any amount paid under RCW 41.50.165(2),
16 together with the regular interest thereon.

17 (2) "Actuarial equivalent" means a benefit of equal value when

1 computed upon the basis of such mortality tables and regulations as
2 shall be adopted by the director and regular interest.

3 (3) "Annuity" means the moneys payable per year during life by
4 reason of accumulated contributions of a member.

5 (4) "Member reserve" means the fund in which all of the accumulated
6 contributions of members are held.

7 (5) (a) "Beneficiary" for plan 1 members, means any person in
8 receipt of a retirement allowance or other benefit provided by this
9 chapter.

10 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
11 in receipt of a retirement allowance or other benefit provided by this
12 chapter resulting from service rendered to an employer by another
13 person.

14 (6) "Contract" means any agreement for service and compensation
15 between a member and an employer.

16 (7) "Creditable service" means membership service plus prior
17 service for which credit is allowable. This subsection shall apply
18 only to plan 1 members.

19 (8) "Dependent" means receiving one-half or more of support from a
20 member.

21 (9) "Disability allowance" means monthly payments during
22 disability. This subsection shall apply only to plan 1 members.

23 (10) (a) "Earnable compensation" for plan 1 members, means:

24 (i) All salaries and wages paid by an employer to an employee
25 member of the retirement system for personal services rendered during
26 a fiscal year. In all cases where compensation includes maintenance
27 the employer shall fix the value of that part of the compensation not
28 paid in money.

29 (ii) For an employee member of the retirement system teaching in an
30 extended school year program, two consecutive extended school years, as
31 defined by the employer school district, may be used as the annual
32 period for determining earnable compensation in lieu of the two fiscal
33 years.

34 (iii) "Earnable compensation" for plan 1 members also includes the
35 following actual or imputed payments, which are not paid for personal
36 services:

37 (A) Retroactive payments to an individual by an employer on
38 reinstatement of the employee in a position, or payments by an employer

1 to an individual in lieu of reinstatement in a position which are
2 awarded or granted as the equivalent of the salary or wages which the
3 individual would have earned during a payroll period shall be
4 considered earnable compensation and the individual shall receive the
5 equivalent service credit.

6 (B) If a leave of absence, without pay, is taken by a member for
7 the purpose of serving as a member of the state legislature, and such
8 member has served in the legislature five or more years, the salary
9 which would have been received for the position from which the leave of
10 absence was taken shall be considered as compensation earnable if the
11 employee's contribution thereon is paid by the employee. In addition,
12 where a member has been a member of the state legislature for five or
13 more years, earnable compensation for the member's two highest
14 compensated consecutive years of service shall include a sum not to
15 exceed thirty-six hundred dollars for each of such two consecutive
16 years, regardless of whether or not legislative service was rendered
17 during those two years.

18 (~~((iii))~~) (iv) For members employed less than full time under
19 written contract with a school district, or community college district,
20 in an instructional position, for which the member receives service
21 credit of less than one year in all of the years used to determine the
22 earnable compensation used for computing benefits due under RCW
23 41.32.497, 41.32.498, and 41.32.520, the member may elect to have
24 earnable compensation defined as provided in RCW 41.32.345. For the
25 purposes of this subsection, the term "instructional position" means a
26 position in which more than seventy-five percent of the member's time
27 is spent as a classroom instructor (including office hours), a
28 librarian, or a counselor. Earnable compensation shall be so defined
29 only for the purpose of the calculation of retirement benefits and only
30 as necessary to insure that members who receive fractional service
31 credit under RCW 41.32.270 receive benefits proportional to those
32 received by members who have received full-time service credit.

33 (~~((iv))~~) (v) "Earnable compensation" does not include:

34 (A) Remuneration for unused sick leave authorized under RCW
35 41.04.340, 28A.400.210, or 28A.310.490;

36 (B) Remuneration for unused annual leave in excess of thirty days
37 as authorized by RCW 43.01.044 and 43.01.041.

1 (b) "Earnable compensation" for plan 2 and plan 3 members, means
2 salaries or wages earned by a member during a payroll period for
3 personal services, including overtime payments, and shall include wages
4 and salaries deferred under provisions established pursuant to sections
5 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
6 shall exclude lump sum payments for deferred annual sick leave, unused
7 accumulated vacation, unused accumulated annual leave, or any form of
8 severance pay.

9 "Earnable compensation" for plan 2 and plan 3 members also includes
10 the following actual or imputed payments which, except in the case of
11 (b)(ii)(B) of this subsection, are not paid for personal services:

12 (i) Retroactive payments to an individual by an employer on
13 reinstatement of the employee in a position or payments by an employer
14 to an individual in lieu of reinstatement in a position which are
15 awarded or granted as the equivalent of the salary or wages which the
16 individual would have earned during a payroll period shall be
17 considered earnable compensation, to the extent provided above, and the
18 individual shall receive the equivalent service credit.

19 (ii) In any year in which a member serves in the legislature the
20 member shall have the option of having such member's earnable
21 compensation be the greater of:

22 (A) The earnable compensation the member would have received had
23 such member not served in the legislature; or

24 (B) Such member's actual earnable compensation received for
25 teaching and legislative service combined. Any additional
26 contributions to the retirement system required because compensation
27 earnable under (b)(ii)(A) of this subsection is greater than
28 compensation earnable under (b)(ii)(B) of this subsection shall be paid
29 by the member for both member and employer contributions.

30 (11) "Employer" means the state of Washington, the school district,
31 or any agency of the state of Washington by which the member is paid.

32 (12) "Fiscal year" means a year which begins July 1st and ends June
33 30th of the following year.

34 (13) "Former state fund" means the state retirement fund in
35 operation for teachers under chapter 187, Laws of 1923, as amended.

36 (14) "Local fund" means any of the local retirement funds for
37 teachers operated in any school district in accordance with the
38 provisions of chapter 163, Laws of 1917 as amended.

1 (15) "Member" means any teacher included in the membership of the
2 retirement system. Also, any other employee of the public schools who,
3 on July 1, 1947, had not elected to be exempt from membership and who,
4 prior to that date, had by an authorized payroll deduction, contributed
5 to the member reserve.

6 (16) "Membership service" means service rendered subsequent to the
7 first day of eligibility of a person to membership in the retirement
8 system: PROVIDED, That where a member is employed by two or more
9 employers the individual shall receive no more than one service credit
10 month during any calendar month in which multiple service is rendered.
11 The provisions of this subsection shall apply only to plan 1 members.

12 (17) "Pension" means the moneys payable per year during life from
13 the pension reserve.

14 (18) "Pension reserve" is a fund in which shall be accumulated an
15 actuarial reserve adequate to meet present and future pension
16 liabilities of the system and from which all pension obligations are to
17 be paid.

18 (19) "Prior service" means service rendered prior to the first date
19 of eligibility to membership in the retirement system for which credit
20 is allowable. The provisions of this subsection shall apply only to
21 plan 1 members.

22 (20) "Prior service contributions" means contributions made by a
23 member to secure credit for prior service. The provisions of this
24 subsection shall apply only to plan 1 members.

25 (21) "Public school" means any institution or activity operated by
26 the state of Washington or any instrumentality or political subdivision
27 thereof employing teachers, except the University of Washington and
28 Washington State University.

29 (22) "Regular contributions" means the amounts required to be
30 deducted from the compensation of a member and credited to the member's
31 individual account in the member reserve. This subsection shall apply
32 only to plan 1 members.

33 (23) "Regular interest" means such rate as the director may
34 determine.

35 (24) (a) "Retirement allowance" for plan 1 members, means monthly
36 payments based on the sum of annuity and pension, or any optional
37 benefits payable in lieu thereof.

1 (b) "Retirement allowance" for plan 2 and plan 3 members, means
2 monthly payments to a retiree or beneficiary as provided in this
3 chapter.

4 (25) "Retirement system" means the Washington state teachers'
5 retirement system.

6 (26) (a) "Service" for plan 1 members means the time during which a
7 member has been employed by an employer for compensation.

8 (i) If a member is employed by two or more employers the individual
9 shall receive no more than one service credit month during any calendar
10 month in which multiple service is rendered.

11 (ii) As authorized by RCW 28A.400.300, up to forty-five days of
12 sick leave may be creditable as service solely for the purpose of
13 determining eligibility to retire under RCW 41.32.470.

14 (iii) As authorized in RCW 41.32.065, service earned in an out-of-
15 state retirement system that covers teachers in public schools may be
16 applied solely for the purpose of determining eligibility to retire
17 under RCW 41.32.470.

18 (b) "Service" for plan 2 and plan 3 members, means periods of
19 employment by a member for one or more employers for which earnable
20 compensation is earned subject to the following conditions:

21 (i) A member employed in an eligible position or as a substitute
22 shall receive one service credit month for each month of September
23 through August of the following year if he or she earns earnable
24 compensation for eight hundred ten or more hours during that period and
25 is employed during nine of those months, except that a member may not
26 receive credit for any period prior to the member's employment in an
27 eligible position except as provided in RCW 41.32.812 and 41.50.132;

28 (ii) If a member is employed either in an eligible position or as
29 a substitute teacher for nine months of the twelve month period between
30 September through August of the following year but earns earnable
31 compensation for less than eight hundred ten hours but for at least six
32 hundred thirty hours, he or she will receive one-half of a service
33 credit month for each month of the twelve month period;

34 (iii) All other members in an eligible position or as a substitute
35 teacher shall receive service credit as follows:

36 (A) A service credit month is earned in those calendar months where
37 earnable compensation is earned for ninety or more hours;

1 (B) A half-service credit month is earned in those calendar months
2 where earnable compensation is earned for at least seventy hours but
3 less than ninety hours; and

4 (C) A quarter-service credit month is earned in those calendar
5 months where earnable compensation is earned for less than seventy
6 hours.

7 (iv) Any person who is a member of the teachers' retirement system
8 and who is elected or appointed to a state elective position may
9 continue to be a member of the retirement system and continue to
10 receive a service credit month for each of the months in a state
11 elective position by making the required member contributions.

12 (v) When an individual is employed by two or more employers the
13 individual shall only receive one month's service credit during any
14 calendar month in which multiple service for ninety or more hours is
15 rendered.

16 (vi) As authorized by RCW 28A.400.300, up to forty-five days of
17 sick leave may be creditable as service solely for the purpose of
18 determining eligibility to retire under RCW 41.32.470. For purposes of
19 plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal
20 to two service credit months. Use of less than forty-five days of sick
21 leave is creditable as allowed under this subsection as follows:

22 (A) Less than eleven days equals one-quarter service credit month;

23 (B) Eleven or more days but less than twenty-two days equals one-
24 half service credit month;

25 (C) Twenty-two days equals one service credit month;

26 (D) More than twenty-two days but less than thirty-three days
27 equals one and one-quarter service credit month;

28 (E) Thirty-three or more days but less than forty-five days equals
29 one and one-half service credit month.

30 (vii) As authorized in RCW 41.32.065, service earned in an out-of-
31 state retirement system that covers teachers in public schools may be
32 applied solely for the purpose of determining eligibility to retire
33 under RCW 41.32.470.

34 (viii) The department shall adopt rules implementing this
35 subsection.

36 (27) "Service credit year" means an accumulation of months of
37 service credit which is equal to one when divided by twelve.

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

(31) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(32) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(33) "Director" means the director of the department.

(34) "State elective position" means any position held by any person elected or appointed to state-wide office or elected or appointed as a member of the legislature.

(35) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

(37)(a) "Eligible position" for plan 2 members from June 7, 1990, through September 1, 1991, means a position which normally requires two or more uninterrupted months of creditable service during September through August of the following year.

1 (b) "Eligible position" for plan 2 and plan 3 on and after
2 September 1, 1991, means a position that, as defined by the employer,
3 normally requires five or more months of at least seventy hours of
4 earnable compensation during September through August of the following
5 year.

6 (c) For purposes of this chapter an employer shall not define
7 "position" in such a manner that an employee's monthly work for that
8 employer is divided into more than one position.

9 (d) The elected position of the superintendent of public
10 instruction is an eligible position.

11 (38) "Plan 1" means the teachers' retirement system, plan 1
12 providing the benefits and funding provisions covering persons who
13 first became members of the system prior to October 1, 1977.

14 (39) "Plan 2" means the teachers' retirement system, plan 2
15 providing the benefits and funding provisions covering persons who
16 first became members of the system on and after October 1, 1977, and
17 prior to July 1, 1996.

18 (40) "Plan 3" means the teachers' retirement system, plan 3
19 providing the benefits and funding provisions covering persons who
20 first become members of the system on and after July 1, 1996, or who
21 transfer under RCW 41.32.817.

22 (41) "Index" means, for any calendar year, that year's annual
23 average consumer price index, Seattle, Washington area, for urban wage
24 earners and clerical workers, all items compiled by the bureau of labor
25 statistics, United States department of labor.

26 (42) "Index A" means the index for the year prior to the
27 determination of a postretirement adjustment.

28 (43) "Index B" means the index for the year prior to index A.

29 (44) "Index year" means the earliest calendar year in which the
30 index is more than sixty percent of index A.

31 (45) "Adjustment ratio" means the value of index A divided by index
32 B.

33 (46) "Annual increase" means, initially, fifty-nine cents per month
34 per year of service which amount shall be increased each July 1st by
35 three percent, rounded to the nearest cent.

36 (47) "Member account" or "member's account" for purposes of plan 3
37 means the sum of the contributions and earnings on behalf of the member
38 in the defined contribution portion of plan 3.

1 (48) "Separation from service or employment" occurs when a person
2 has terminated all employment with an employer.
3 (49) "Employed" or "employee" means a person who is providing
4 services for compensation to an employer, unless the person is free
5 from the employer's direction and control over the performance of work.
6 The department shall adopt rules and interpret this subsection
7 consistent with common law.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/16/02	Z-0147.1

SUMMARY:

This bill impacts the School Employees Retirement System by allowing substitute employees to purchase service credit.

Effective Date: Ninety days after session.

BACKGROUND DISCUSSION:

Substitutes for classified employees in school districts may earn service credit in the School Employees Retirement System if they work five or more months of during the year for which compensation for at least seventy hours per month is earned two years in succession.

Currently, by substituting on a frequent basis, a classified substitute employee may surpass the requirements to earn school employees' retirement system service credit. When this occurs, their employer must make the appropriate employer contributions to the retirement plan for the period during which the employee fulfilled those requirements. The substitute employee is also billed for the employee contributions for the same period. School districts are inconsistent with the application of these service credit rules.

While some substitutes may use this experience to work into a full-time position, others do not. Many substitutes withdraw their contributions after they terminate employment at the end of the school year. This causes administrative costs at the school districts and at the department. It also causes a financial burden to the substitute because they are assessed a 10% tax penalty for withdrawing.

MEMBERS IMPACTED:

Current classified substitutes who are members would be removed from membership. We currently have no information on the number of classified substitute employees. Those who opt to purchase service credit under this bill would be doing so with after-tax dollars rather than with pre-tax dollars as do regular members.

FISCAL IMPACT:

By excluding all substitutes from membership, except those who opt in voluntarily, the contribution rate could increase. The cost of the retirement system would be borne only by those receiving the benefits as school districts would no longer make contributions for those who receive no benefits. The total cost would not increase, however.